BUSINESS FOR LEAVING CERTIFICATE

4TH EDITION

21ST CENTURY BUSINESS

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CJFallon
ESTABLISHED 1895

WILLIAM MURPHY

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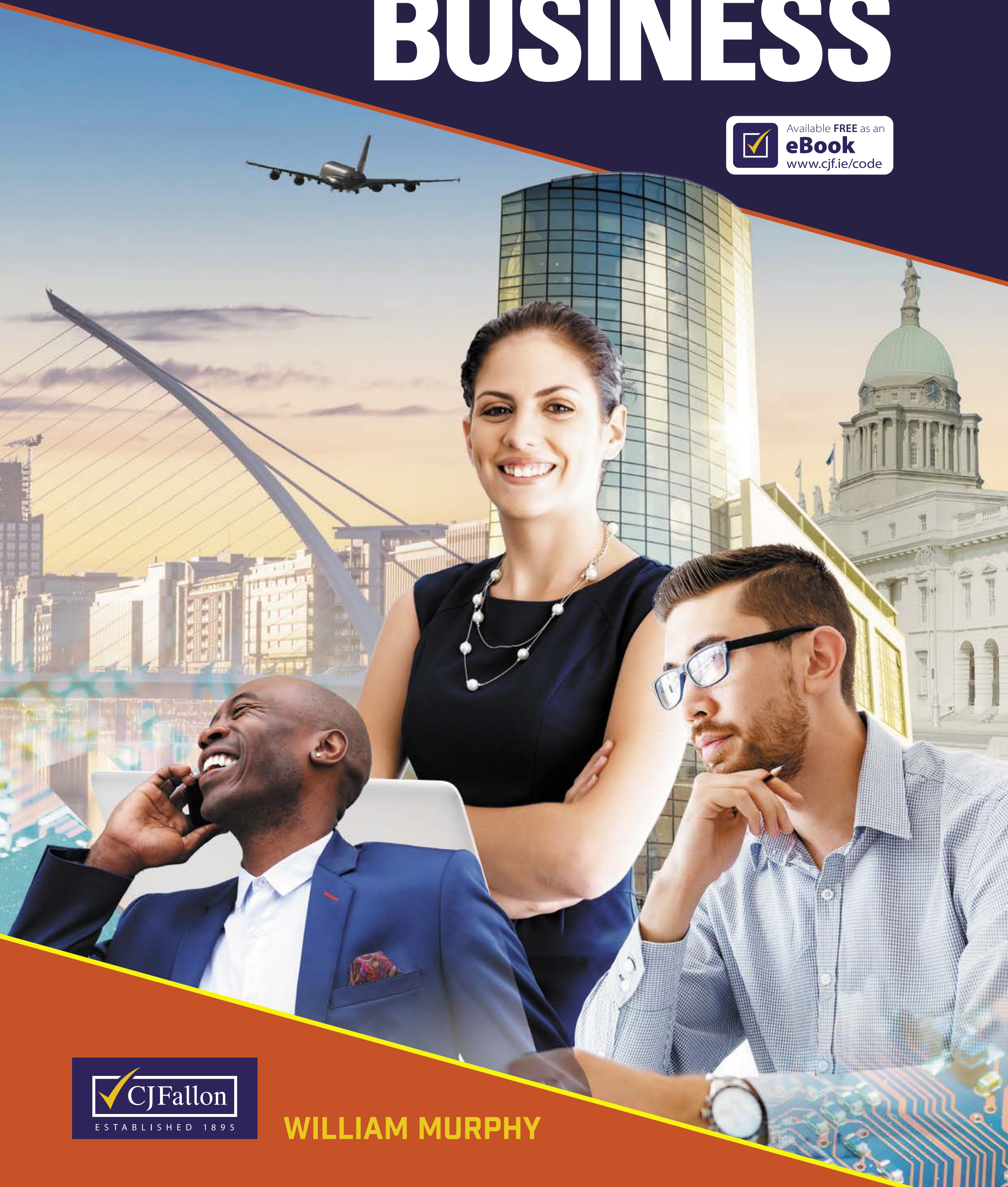

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Introduction

21st Century Business (Fourth Edition) has been written with students and teachers in mind. It covers every area of the syllabus and includes the experience and hindsight gained from past Leaving Certificate exams and incorporating all the styles of exam questions asked. The syllabus is treated so comprehensively that additional teacher notes are not required.

The book is written using clear and student-friendly English. All concepts are thoroughly explained in a way that is totally accessible to students of all ability levels, yet sufficiently detailed for Higher Level students to achieve top marks. The theory is backed up throughout with clear, concise and familiar real-world examples to reinforce learning.

The book contains many “evaluations” to prepare Higher Level students for this important question. The marketing chapter, for example, evaluates the marketing and promotional mixes of several brand leaders. All the laws on the course are evaluated.

Each chapter contains a large bank of homework questions at both Ordinary and Higher Levels, covering every style of question examined in the Leaving Certificate, with many ABQs included so that Higher Level students can practise this essential question.

I would like to express my gratitude to Anna Winz for reviewing the contents and for her advice which helped to improve the book so much. I would like to thank my students throughout the years whose comments and response to the book have also improved it immensely. The process of writing a book is a lengthy and all-consuming one. Heartfelt thanks to Diarmuid Furlong for his patience and advice throughout the entire process.

William Murphy

Contents

Dedication

**This book is dedicated to my parents,
Katherine and William Murphy.**

THE LEAVING CERTIFICATE BUSINESS EXAM

Higher Level Exam Layout

The layout of the Higher Level Business paper is set out below. Pay careful attention to the timing when answering the questions. The times shown here allow you five minutes at the start of the exam to have a quick look over the paper and five minutes at the end to read over your answers before handing them up.

HIGHER LEVEL EXAM The exam lasts for three hours and there are three sections in it, to be answered as follows:					
Section	**Contents***	**Instructions***	**Marks***	**Units of the course examinable**	**Timing**
1	10 short questions	Answer any eight	20%	Units 1 to 7	30 minutes or just under four minutes per question
2	Applied Business Question	COMPULSORY question – all three parts MUST be answered	20%	The ABQ questions will come from the following units: 2023 – Units 5, 6 and 7 2024 – Units 1, 2 and 3 2025 – Units 2, 3 and 4 2026 – Units 3, 4 and 5 2027 – Units 4, 5 and 6 This cycle then repeats every five years	36 minutes
3	Part 1 contains three questions Part 2 contains four questions	You must answer FOUR questions from the seven given, as follows: *One* from Part 1 and *Two* from Part 2 AND *One* other question from either Part	60%	Part 1 questions come from units 1, 6 and 7 Part 2 questions come from units 2, 3, 4 and 5	26 minutes for each one of the four questions answered

*Changes may be made to the layout and instructions of the Leaving Certificate Business papers, so always check with your teacher for the latest position on the layout of the exam paper.

Answering Questions in Each Section

Section 1 – Short Answer Questions (20%)

- This section of the exam consists of 10* short questions that you answer in the spaces provided on the exam paper itself. The questions can come from any part of the course – i.e., all 26 chapters.
- You have to answer **any eight*** of the ten questions.
- You should do the short answer questions **first** in the exam.
- Aim to get them done in half an hour.
- If you have time at the end of the exam, go back and answer all 10 as you will be marked on your best eight answers.
- The most important rule for answering these short questions is that, usually, you get **5 marks** for each point you make. This is often broken down into 3 marks for a correct piece of information and 2 marks for some extra information you know on the topic. So, make sure to give extra information on each point to get the "extra" marks.

Section 2 – Applied Business Question (ABQ)

- The ABQ is **compulsory** and is worth **20%*** of the exam.
- It consists of a story about a fictional business. You are asked to comment on the story *using what you have learned in class.*
- There are three questions in the ABQ and **you must answer all three**.
- You have 36 minutes to answer all three questions.

How to answer the ABQ:

1. Read the questions first. This will help you to know what to look out for in the story.
2. Divide the marks for a question by 5 to get the number of points to write. However, if you get a 30- or 40-mark question, no more than 5 points are required, but give some more detail on each one.
3. Answer each point you make as follows:

EXPLAIN	▪ Give a two-sentence **textbook** definition of your point. ▪ Do **not** refer to the story at all in your explanation!!!!
EVALUATE/ ANALYSE/ ADVISE/ DISCUSS	▪ If the question asks you to "evaluate", "analyse", "advise" or "discuss", you must also give an advantage or disadvantage of the topic. ▪ It must be an advantage or disadvantage that you **studied in class**, and it must be relevant to the story.
QUOTE	▪ You must link the theory you have written about to the business in the ABQ. Back up every point you make with a relevant quote **from the story**. ▪ Write out a full sentence or major part of the sentence from the story **word for word**. ▪ You can only use a quote **once** in each question.

Section 3 – Long Questions (60%)

Section 3 of the exam paper is divided into two parts. Part 1 has three questions and Part 2 has four questions. You must answer **four** questions as follows:

ONE from Part 1 and TWO from Part 2 AND ONE other question from either part

Part 1 questions will come from units 1, 6 and 7 (Chapters 1–3 and 19–26).

Part 2 questions will come from units 2, 3, 4 and 5 (Chapters 4–18).

- You should spend no more than 26 minutes on each of the four questions you have to do. Questions in this section usually carry 60 marks. This means that you have 8½ minutes for every 20-mark part of a question; 6½ minutes for a 15-mark part and 13 minutes for a 30-mark part.
- Divide the marks by five to see how many points you are expected to write in your answer. You are rarely, if ever, required to give more than five points in a question.
- It is **essential** that you **explain** your point fully. You get roughly 40% for stating your point. You get the remaining 60% for elaborating on it and explaining it. It is the **accuracy** of your definition or explanation that is rewarded, not the length of your answer.
- Certain verbs used by the examiner require a little extra information. If you are asked to "illustrate" something, you should explain your point as usual and then **give a well-known business example** for each point you make. If asked to "evaluate", you should explain each point and then **give your opinion with one advantage or disadvantage**.
- A common trend in recent years is for the examiner to ask a question using stimulus material – usually a short paragraph about a real or fictional business. If you get such a question in the exam, you should explain each of your points and then refer to the details of this business in each point!

Ordinary Level Exam Layout

The layout of the Ordinary Level Business paper is set out below. Pay careful attention to the timing. The times shown here allow you three minutes at the start of the exam to have a quick look over the paper and three minutes at the end to read over your answers before handing them up.

ORDINARY LEVEL EXAM
The exam lasts for 2.5 hours and there are two sections in it, to be answered as follows:

Section	Contents*	Instructions*	Marks*	Units of the course examinable	Timing
1	15 short questions	Answer any 10	25%	Units 1 to 7	36 minutes or just under three minutes per question
2	Part 1 contains three questions Part 2 contains five questions	You must answer FOUR questions from the eight given, as follows: *One* from Part 1 and *Two* from Part 2 AND *One* other question from either Part	75%	Part 1 questions come from units 1, 6 and 7 Part 2 questions come from units 2, 3, 4 and 5	27 minutes for each one of the four questions answered

*Changes may be made to the layout and instructions of the Leaving Certificate Business papers, so always check with your teacher for the latest position on the layout of the exam paper.

Answering Questions in Each Section

Section 1 – Short Answer Questions (25%)

- This section of the exam consists of 15* short questions that you answer in the spaces provided on the exam paper itself. The questions can come from any part of the course – i.e., all 26 chapters.
- You have to answer **any ten*** of the 15 questions.
- You should do the short answer questions **first** in the exam.
- Aim to get them done in just over half an hour.
- If you have time at the end of the exam, go back and answer more questions as you will be marked on your best ten answers.

Section 2 – Long Questions (75%)

Section 2 of the exam paper is divided into two parts. Part 1 has three questions and Part 2 has five questions. You must answer **four** questions as follows:

ONE from Part 1 and TWO from Part 2
AND
ONE other question from either part

Part 1 questions will come from units 1, 6 and 7 (Chapters 1–3 and 19–26).

Part 2 questions will come from units 2, 3, 4 and 5 (Chapters 4–18).

- You should spend no more than 27 minutes on each of the 4 questions you have to do. Questions in this section usually carry 75 marks. This means that you have about 7 minutes for every 20-mark part of a question; 5½ minutes for a 15-mark part and 3½ minutes for a 10-mark part.
- Divide the marks by five to see how many points you are expected to write in your answer. You are rarely, if ever, required to give more than five points in a question.
- It is **essential** that you **explain** your point fully. You get roughly 40% for stating your point. You get the remaining 60% for elaborating on it and explaining it. It is the **accuracy** of your definition or explanation that is rewarded, not the length of your answer.

UNIT 1

CHAPTER 1 PEOPLE IN BUSINESS AND CONTRACT LAW

LEARNING OUTCOMES

In this chapter, we will look at:

- The different people that are affected by a business.
- The relationships that exist between these people.
- Contracts.
- How contracts come to an end.
- Consequences of breaking a contract.

Stakeholders/Parties in Business

A business is an organisation set up to provide goods and services to customers. For example, Starbucks sells coffee, Penneys sells clothes. People set up a business to make a profit. We call such people **entrepreneurs**. However, businesses impact on a lot of people, not just the entrepreneur.

For example, imagine if your local supermarket closed down, this would affect many people: supermarket employees would lose their jobs; you, the customer, would have to find somewhere else to shop; the supermarket owner (entrepreneur) would lose her livelihood; the suppliers, for example the bread and milk companies that sold to the supermarket, would lose sales and the government would no longer receive taxes from the supermarket.

In other words, **many people** are affected by how a business is run. These people are called **stakeholders**. The main stakeholders in any business include the following:

1. Entrepreneur
2. Investor
3. Employer
4. Employee
5. Manager
6. Producer
7. Consumer
8. Supplier
9. Service provider
10. Interest group

Stakeholder Roles

Role of the Entrepreneur in a Business

An entrepreneur is a person who **spots an opportunity** and takes the **initiative** to set up a business to make money from that opportunity.

For example, in 1994, Jeff Bezos spotted the potential of the internet to sell products and set up an online bookstore called Amazon.

The entrepreneur takes a big **risk** when setting up a business. They take a financial risk because if the business is a failure, the entrepreneur will lose the money he or she invested in it. They also take a personal risk because if the business fails, they may lose their self-esteem and self-confidence. According to data from the Central Statistics Office (CSO), one in three new businesses in Ireland fails within five years.

Jeff Bezos took a risk by quitting his well-paid job on Wall Street to set up Amazon.

Entrepreneurs are willing to take these risks, however, because they expect the business to be a success and they expect to make a **profit**.

Amazon came to be a hugely successful e-commerce business and Jeff Bezos became one of the richest people in the world.

Role of the Investor in a Business

An investor is a person who gives the money (called **capital**) to the entrepreneur that he needs to set up, run and grow his business, in exchange for a return on investment.

The investor can lend money to the entrepreneur, which she expects to be paid back with interest. This is called **debt capital**.

Alternatively, the investor can give the entrepreneur the capital in return for a share (part-ownership) in the business. This is called **equity finance**. In this case, the return the investor receives is an annual share of the profits, called a dividend. The investor can sell her share later if she wants.

Jeff Bezos's parents invested around $250,000 in Amazon to help it get started. As the business grew, Bezos sold more shares in it to other investors to pay for its expansion.

Examples of investors include banks that give loans to entrepreneurs and Local Enterprise Offices (*see Chapter 22*) that give grants and cheap loans to entrepreneurs to help them set up their businesses.

Role of the Employer in a Business

An employer is a person who **hires** others to work for her. The employer rewards the employee for the work he does. The employer can reward the employee financially with pay, bonuses, and commission, and non-financially with more holidays.

An entrepreneur may become an employer when her business begins to grow and she cannot do all the work herself or because she does not have certain skills that are essential for running the business. For example, she may employ a computer graduate to design the business's website and look after its computer system if she is not skilled at computers.

An example of an employer is Aer Lingus. It hires pilots to fly its planes.

Role of the Employee in a Business

An employee is a person who works for an employer in return for a **wage**. He carries out the essential tasks needed to make the business a success, which the employer cannot or will not do.

An example of an employee is a pilot in Aer Lingus. He flies planes for the airline in return for a wage.

Employees do more than just work for their boss. Employees may also give their employers ideas to make the business even more successful. Such employees are called **intrapreneurs**.

When workers at Microsoft saw the success of the Sony PlayStation, they suggested to Bill Gates, the entrepreneur behind Microsoft, that Microsoft should also develop a games console and so these employees were responsible for Microsoft launching its Xbox console.

Role of the Manager in a Business

A manager's job is to **run** the business and make sure that it achieves its objectives. The manager must use the **resources** of the business (such as people, money, equipment and so on) in the best possible way so that the business is a success.

A successful manager must be able to lead and motivate her employees and communicate effectively with them and with all the other stakeholders in the business.

An example of a manager is the Group Chief Executive Officer of Ryanair, Michael O'Leary. Ryanair started with just one route in 1985. Michael O'Leary proceeded to turn the company into one of the world's most successful airlines.

Role of the Producer in a Business

A producer is a business that **makes** finished **products** from scratch to sell to consumers. Producers take raw materials (ingredients) and use a manufacturing process to turn them into a different product.

Cadbury takes milk and other ingredients and turns them into chocolate. Tayto takes potatoes and turns them into crisps.

Producers operate in the **secondary**/manufacturing sector of the economy. They use the four factors of production to make a product: land (raw materials from nature), labour (employees), capital (human-made things such as machines) and enterprise (ideas).

Role of the Consumer in a Business

A consumer is a person who **buys** goods or services from the entrepreneur for his own personal use. In this way, the consumer provides the entrepreneur with a market for her product and thus a profit.

The consumer also provides the entrepreneur with market research information, by telling the entrepreneur what he likes and dislikes in a product. The entrepreneur can use this information to make her products better and thus sell more.

You are a consumer when you buy clothes in a physical shop or online.

Role of the Supplier in a Business

Suppliers are the other firms the business **buys from**. Suppliers provide the business with the goods and other things it needs to be successful.

> Pat the Baker supplies all the major supermarkets in Ireland with bread to sell.

Role of the Service Provider in a Business

A service provider is a business that offers a range of helpful **supports** to an entrepreneur, for a fee. Service providers operate in the **tertiary** sector of the economy.

> Accountancy firms are service providers. They prepare the business's financial statements and offer the entrepreneur advice on how to improve the business's performance.

Role of Interest Groups in a Business

An interest group is an organisation of people who come together and **campaign** for a common goal by pressurising those who make decisions. By joining forces, they have more power, more money and more talents at their disposal and so are more likely to be listened to by the decision-makers.

They might use tactics such as organising negative publicity and boycotts of businesses that they are campaigning against. They lobby politicians to bring out laws that will meet their demands. Lobbying is the deliberate effort to apply pressure to the decision-maker by contacting her and meeting with her to persuade her to make the decision the interest group wants.

Many different interest groups operate in Ireland. Some, such as the Irish Business and Employers Confederation (IBEC) and the Irish Small and Medium Enterprises (ISME), are set up specifically to help businesses.

- The Irish Business and Employers Confederation (IBEC) tries to help entrepreneurs by lobbying the Minister for Finance to do something positive for business people in his/her budget (e.g. lower business taxes). Every year it prepares a budget submission in which it sets out the actions it thinks the Minister should take in his/her budget to improve the economy for Irish business people. IBEC also has an office in Brussels which it uses to engage with EU institutions to promote the interest of Irish business at EU level.
- The Irish Congress of Trade Unions (ICTU) is an interest group representing almost all the trade unions in Ireland. It campaigns on behalf of working people. It attempts to shape and influence government action in key areas, such as taxation, employment legislation, education and social policy to benefit working people.
- Irish farmers too have interest groups that fight for them – the Irish Farmers' Association (IFA) and the Irish Creamery Milk Suppliers Association (ICMSA).
- Consumers are represented by the Consumers' Association of Ireland (CAI).

Relationships between the Parties in Business

All the different stakeholders (parties) in a business have a relationship with each other. This relationship can be described under two main headings, as follows:

1. Cooperative Relationship

A cooperative relationship is when the parties **work together** and help each other in order to achieve their goals. It is often called a "win-win" situation because working together produces better results than if they worked alone or against each other. The following are examples of cooperative relationships:

- Entrepreneurs cooperate with investors by giving them honest and accurate information about how the business is doing. In return for this, the investor helps the entrepreneur to expand by providing more capital.
- Employees cooperate with their employers by being intrapreneurs (*see Chapter 4*) and giving them useful ideas to help the business to succeed. The employer cooperates by rewarding the employee for her idea by giving her a bonus.
- Producers cooperate with consumers by providing them with excellent quality products at reasonable prices. Consumers cooperate with producers by leaving positive reviews on their websites and encouraging people to buy from a specific producer.

2. Competitive Relationship

A competitive relationship is when one party in business wants to be more successful than another. They fight against each other and become **rivals**. It is often called a "win-lose" situation as only one of them can win. The following are examples of competitive relationships:

- An entrepreneur can have a conflict with an investor by reinvesting all the profits in the business and paying no dividends to the investor, who then refuses to provide the entrepreneur with any more funding.
- Employees and employers can compete. Employees want higher pay while the employer may refuse so that she can keep the business's costs down. The employees can then fight back by going on strike.
- Producers can compete by offering the same product. They can lower their prices to win customers to their brand. This benefits consumers as they get the products at a cheaper price, which saves them money which they can use to buy more of other products they need. Competition between producers can also be based on quality, with them both investing money in quality control to ensure their products are better than their rivals'. Consumers benefit from this competition by enjoying better quality products.

> Tayto and Walker's are both producers of potato crisps, so they compete against each other. They try to outdo each other with low prices and also by improving their recipes and offering tastier and healthier crisps.

Contract Law

To ensure good relationships in business, stakeholders will often draw up a contract. A contract is a legally binding agreement between two or more people in which each promises to do something for the other. The agreement is enforceable in law. This means that if one person breaks the agreement, a judge can order her to pay compensation or force her to carry out the contract as originally agreed.

How do you know whether an agreement you make with someone is a contract? The answer is that an agreement is only a contract if it contains all of the following elements of a contract:

1. Offer
2. Acceptance
3. Consideration
4. Intention to Contract
5. Capacity to Contract
6. Consent to Contract
7. Legality of Form
8. Legality of Purpose

Essential Element of a Contract 1: Offer

An offer is made when one person **asks** another to enter into a deal with him and **promises** to be bound by the contract if his offer is accepted. He does so by setting out all the terms of the deal clearly, completely and without any conditions attached.

He must communicate the offer to the other person. He can do this either by speaking it, by writing it or by his conduct.

You are offering to buy the groceries at the supermarket when you place them on the conveyor belt.

An offer is not to be confused with an **invitation to treat**.

- An advertisement, a price tag, or a display of goods on a shelf or in a shop window are not legal offers. In Irish law, they are known as "invitations to treat".
- An invitation to treat is pre-offer communication, made by someone as a way to attract others into making her an offer.
- It is an indication that the seller of an item would like to receive offers for it. It is a guide to the price the seller is willing to consider and may possibly accept if offered. But it is not a legal offer that the seller must accept.

When a book is placed in a shop window priced at €10, the bookshop owner has made an invitation to treat. When I pick up that book and take it to the till, I make the offer to buy the book for €10.

Example 1

Ann Furlong sees a new sports car in a car dealership with a price tag of €125. She goes into the showroom and says she will buy the car for €125. The salesperson refuses to sell it to her for €125 saying that the price shown is a mistake. The correct price is €125,000.

Does the salesperson legally have to sell the car to Ann for €125?

Answer

If Ann had a contract with the shop to buy the car for €125, then the shop must sell it to her for €125. The first thing you need for a contract is an offer. Did the car dealer offer the car to Ann for €125?

No. The price displayed on the car is not an offer. It is an invitation to treat. Because there is no offer, there is no contract, so there is nothing Ann can do. It was Ann who made the offer and the car dealer is entitled to refuse her offer.

Termination of an Offer

A person can **withdraw** an offer at any time before the other party accepts it. An offer also ends if a deadline set for acceptance passes. For example, if you do not accept an offer from the CAO on time, you lose that college place. Finally, all offers end after a reasonable time. So, if you are offered a job and do not bother to reply, you are not entitled to that job five years later.

Essential Element of a Contract 2: Acceptance

Acceptance means that the person to whom the offer was made, **agrees** precisely to all the terms of the offer. She can accept by speaking, putting it in writing, or by her conduct. For example, the supermarket accepts your offer to buy the groceries when the shop assistant scans them.

The person must accept all the terms of the deal exactly as set out and cannot change them. To do so is called a counter-offer. Making a counter-offer is an automatic rejection of the offer (you are effectively saying “no” to the offer) and the end of that contract.

Example 2

Ikenna interviews Yvonne for a job in his business. He is very impressed with her qualifications and offers her the job with pay of €40,000 a year. Yvonne tells him she will think about it. Two days later she tells him she will take the job if he increases the pay to €45,000.

Ikenna tells her he cannot afford this and that he will look for someone else for the job. At this point, she says “OK, I’ll take the €40,000.” Ikenna is annoyed by her greedy attitude and refuses to give her the job. She tells him he must give her the job because she has a letter from him offering it to her.

Does Ikenna legally have to give the job to Yvonne? Explain your answer.

Answer

If Yvonne had a contract with Ikenna for the job, then he has to give her the job. The first thing you need for a contract is an offer. Ikenna did offer the job to Yvonne with pay of €40,000 a year.

The second thing you need for a contract is acceptance. Did Yvonne agree to all the terms of Ikenna’s offer precisely and without conditions? No.

She did NOT agree to all Ikenna’s terms exactly. She did NOT say yes to the €40,000 job offer when he first made it. She said she would take the job if he gave her €45,000. This is a counter-offer. In Irish law, she said no to Ikenna’s offer when she made the counter-offer. Because there is no acceptance, there is no contract and therefore there is nothing she can do.

Note: “Offer” and “Acceptance” are collectively known as “**Agreement**”.

Essential Element of a Contract 3: Consideration

Consideration is the exchange of value between the parties in a contract. Each party must give some form of **payment** to the other in exchange for a promise or action. In the supermarket example, the supermarket gives you the groceries as consideration; you give it cash as consideration.

Consideration can be anything of value (goods, money, services, a promise).

For an agreement to be a contract there must be consideration and it must have a value that can be objectively determined. For example, "if you lend me your Business book, I'll be your best friend" is NOT a contract as "I'll be your best friend" is not consideration as it cannot be objectively valued.

Example 3

Eoin asks Agnieszka out on a date. She says yes and they arrange to meet on Friday at 8.00 p.m. Eoin does not turn up on Friday.

Is Agnieszka entitled to compensation because Eoin broke his promise?

Answer

If Agnieszka had a contract with Eoin, then she is entitled to compensation. The first thing you need for a contract is an offer. There was an offer when Eoin asked her out on the date. The second thing you need is acceptance. There was acceptance when Agnieszka said yes. The third thing you need is consideration.

Did Agnieszka receive any payment for agreeing to go on the date? No.

Because there is no consideration, there is no contract, so there is nothing Agnieszka can do.

Essential Element of a Contract 4: Intention to Contract

Intention to contract means that both parties to the agreement must mean it to be a **legally binding** contract. They fully understand at the time they make the agreement that it is a legally binding contract and that they will end up in court if they break their promise.

For example, in Irish law, social or domestic agreements (agreements between family members for non-business transactions) are not contracts because there is no intention in them. If Alex promises to walk the dog for his mother and then does not, she cannot sue him. No matter how tough his mother is, neither Alex nor his mother would expect to end up in front of a judge for not walking a dog.

However, commercial agreements with businesses are always contracts because both sides always intend them to be legally binding. For example, if you bought a faulty product from a shop, you would expect some remedy – replacement or refund. Otherwise, you would take legal action against the shop.

Essential Element of a Contract 5: Capacity to Contract

Capacity to contract means that a person has the **legal right** to make a legally binding contract. In other words, she has the legal power and ability to make a contract.

All people and businesses have the legal right to make a contract except the following:

- People under 18 years of age (except for necessities).
- People who are mentally incapacitated because they are drunk, on drugs or insane.
- Directors in a Designated Activity Company (DAC) when they do something beyond their authority (as set out in the company's memorandum of association). This is known as directors acting *ultra vires*.
- Diplomats, who cannot make contracts because they have diplomatic immunity.

Because these people do not have the capacity to contract, any such agreements they make are not legal contracts.

Essential Element of a Contract 6: Consent to Contract

For a contract to be valid, both parties must give their real and genuine **permission** to enter into it. They must know exactly what they are getting into (there cannot be any mistakes or lies) and they cannot be forced into agreeing to the deal against their will.

> In a real-life case, the former chairperson of a company threatened the CEO that he would have him killed if he did not buy his shares. The CEO bought the shares but later tried to get out of the contract. The judge let him out of the contract because he had been forced into it against his will.

Essential Element of a Contract 7: Legality of Form

Legality of form means that certain agreements must be drawn up in a **certain way** if they are to be legal contracts. They may have to be produced in writing, for example.

For example, when you are buying a house from someone, you must have the agreement in writing. Otherwise, it is not a valid contract, even if there is offer, acceptance, consideration, intention, capacity and consent. The seller can pull out at any time before you both sign the written agreement.

Hire purchase deals (whereby you buy something and pay for it in instalments) must also be in writing if they are to be legal contracts.

Essential Element of a Contract 8: Legality of Purpose

This means that legally binding contracts can only be for **legal** transactions. No agreement which involves breaking the law is a contract. Agreements to commit a crime will not be upheld in court, regardless of how many of the other elements of a contract are present in the agreement.

> A judge will not award compensation to a bank robber whose getaway driver did not turn up as promised.

Termination of a Contract

A contract can come to an end in a number of ways:

1. Performance

A contract ends when each person carries out the duties required of them exactly as they agreed under the terms of the contract.

Amy has a contract to sell her shares in a company to Caitlin for €15,000. When Caitlin gives the €15,000 to Amy and Amy gives the shares to Caitlin, the contract is terminated by performance.

2. Agreement

A contract comes to an end if all the parties involved in it voluntarily consent to end it, whether the purpose of the contract has been achieved or not.

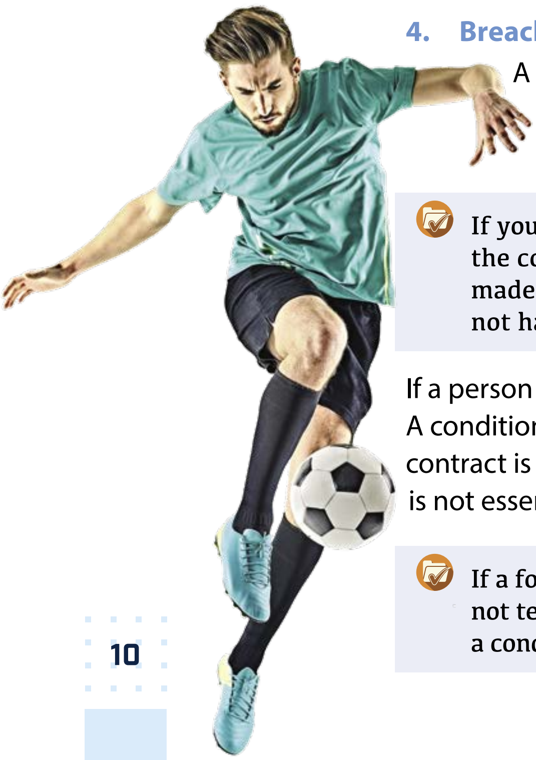
They may agree to end it because the terms of the contract allow them to get out of it if they give each other notice.

In Ireland, most employment contracts can be terminated by either the employer or the employee giving the other one month's notice.

3. Frustration

A contract comes to an end if some event happens after it was made that was not reasonably foreseeable when the contract was agreed and was not under the direct control of either party, which makes it impossible to carry out the contract.
A contract is frustrated if one of the parties to it dies or goes bankrupt.

A singer has a contract with a publican to perform at his pub one night. The night before the gig, the singer dies, and this makes it impossible for the gig to go ahead. The death ends the contract.



4. Breach of Contract

A contract is terminated as soon as one of the people involved breaks her part of the deal and fails to carry out her side of it exactly as she agreed in the contract.

If you have a contract for a grind and the teacher does not turn up at all, the contract is ended because the teacher did not honour the promise he made you. He broke a condition of the contract by not turning up. You do not have to pay him.

If a person breaks a condition in the contract, it is terminated immediately.
A condition is an essential and fundamental part of the contract. If a warranty in the contract is broken, the contract is not ended. A warranty is a term of a contract that is not essential and fundamental to it.

If a footballer misses a training session, this is a breach of a warranty. He has not terminated his contract. However, if he misses a match, it is a breach of a condition. The contract is terminated and his club can sue him.

Remedies for Breach of Contract

Breach of contract means that one party to the contract fails to perform it exactly as agreed. If a person breaks a contract, she can be taken to court where the judge can award the following remedies to the innocent person:

1. Damages

The judge can order the person who broke the contract to pay financial compensation to the innocent party to compensate him for what he has lost and suffered as a result of the other person's breach.

> A singer agrees to give a concert in Dublin. The promoter starts to organise the event and pays the singer an advance of €250,000. The singer pulls out of the concert at the last minute. The promoter takes the singer to court for breach of contract. The judge could order the singer to pay the promoter €400,000 in compensation for money lost and inconvenience.

Compensation can help to solve the conflict over the breach because the innocent person does not lose out financially as a result of the breach. Any money he lost is returned to him and he may receive extra money for any inconvenience caused to him.

2. Specific Performance

The judge orders the person who broke the contract to carry it out exactly as she promised she would under the terms of the original contract.

> In the case of a teacher not turning up to give grinds, the judge could order him to give the student all the grinds as originally agreed.

This remedy can help to solve the conflict over the breach because the innocent person does not suffer at all because of the breach. The judge orders the contract to be carried out in full as the parties originally promised. The innocent person gets exactly what he contracted for. It can, however, only be used when it is still possible to perform the contract exactly as agreed.

3. Rescinding the Contract

The judge orders that the contract be set aside and that the two people be returned to the exactly the position they were in before the contract was agreed by them. A judge might rescind a contract that has been frustrated.

> In the concert example, if the reason the singer could not perform was that she had become seriously ill, the judge might rescind the contract. The singer would have to pay the promoter back the €250,000 advance and then the contract would be set aside. It would no longer exists. Both the singer and the promoter would be left as they were before they entered into the contract.

This remedy can help to solve the conflict over the breach because the innocent person is returned to the situation he was in before he entered into the contract at all. He is no better and no worse off after the breach.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **five** stakeholders in a business.
2. Explain the role of the entrepreneur in business.
3. Outline the role of investors in business and give **two** examples of investors.
4. Write out what the following letters stand for: IBEC, ICTU, IFA.
5. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Consumer
2. Entrepreneur
3. Interest group
4. Investor
5. Producer
6. Service provider

Column 2: Explanations
(a) A person who provides the entrepreneur with the capital needed to start and run the business
(b) A business that does useful things for others
(c) A person who spots an opportunity and sets up a business to make money from that opportunity
(d) A business that manufactures finished goods from raw materials
(e) A person who buys goods and services for her own personal use
(f) An organisation of people sharing the same goal who campaign together to achieve that goal
(g) A person who works for another in return for a wage

1	2	3	4	5	6

6. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	An example of a cooperative relationship in business is when employees go on strike to win a pay rise.	
B	IBEC is an interest group that fights for the rights and interests of business people.	
C	Jeff Bezos set up Amazon.	
D	All the people affected by how a business is run are called shareholders.	
E	Service providers operate in the tertiary sector of the economy.	

7. Outline the role of interest groups in business and give **two** examples of interest groups.
8. Explain the role of the consumer in business.
9. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Breach of contract is when a person breaks her side of a contract.	
B	Consideration means agreeing to an offer exactly as it was set out.	
C	Specific performance is a remedy for breach of contract.	
D	A contract is terminated by frustration.	
E	Shops must, by law, always sell products at the price displayed.	

10. List **four** elements of a valid contract.
11. Define "consent to contract".

12. List **four** ways that a contract can be terminated.
13. Outline **two** remedies for breach of contract.
14. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Consideration
2. Capacity to contract
3. Contract
4. Offer
5. Intention to contract
6. Consent to contract

column 2: Explanations
(a) When one person asks another to enter into a deal with him
(b) When a judge orders a person who broke a contract to carry it out exactly as set out in the contract
(c) When both parties to a contract are in agreement and there is no undue pressure on either party
(d) When the parties to a contract have the legal right to make a contract
(e) When some benefit or value moves from one party to a contract to the other
(f) A legally binding agreement between two or more people
(g) When both parties to an agreement mean it to be a legally binding contract

1	2	3	4	5	6

EXAM SECTION 2 – LONG QUESTIONS

1. Distinguish between "producers" and "service providers". **(10 marks)**
2. Describe the relationship that exists between an entrepreneur and an investor. **(15 marks)**
3. Describe the relationship that exists between a producer and a consumer. **(15 marks)**
4. Describe the relationship that exists between an employer and an employee. **(15 marks)**
5. Explain the term "competitive relationship" and outline **two** examples of competitive relationships in business. **(20 marks)**
6. Explain the term "cooperative relationship" and outline **two** examples of cooperative relationships in business. **(20 marks)**
7. Explain the term "interest group" and give an example to illustrate your answer. **(10 marks)**
8. Name **two** stakeholders in a business and explain the role of one of them. **(15 marks)**
9. Explain the terms "offer" and "acceptance". **(20 marks)**
10. Distinguish between "capacity to contract" and "consent to contract". **(15 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Name and give an example of **three** stakeholders in a business.
2. Complete this sentence: The role of an investor in a business is to…
3. Illustrate your understanding of the term "service provider".
4. Distinguish between "employer" and "employee".
5. Define "consumer".
6. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Cooperative relationship
2. Competitive relationship
3. Debt capital
4. Equity capital
5. Lobbying

Column 2: Explanations
(a) Applying pressure to a person by contacting them and meeting with them to persuade them to make the decision you want them to make
(b) The relationship between the stakeholders in business is constantly changing over time
(c) Money that an entrepreneur receives from an investor in return for handing over a share of her business
(d) The stakeholders in business work together and help each other to achieve their goals
(e) Money that an entrepreneur borrows from an investor
(f) The stakeholders in business work against each other and try to beat each other so that only one of them wins

1	2	3	4	5

7. Illustrate your understanding of the term "entrepreneur".
8. What is an "interest group"? Name **two** interest groups in business.
9. The following table shows three types of stakeholder and four functions. For each function, tick (✓) the type of stakeholder that is most likely to match that function.

	Consumer	Employee	Investor
Provides entrepreneur with market research information			
Provides entrepreneur with capital			
Provides entrepreneur with income			
Provides entrepreneur with publicity when they tell friends how good the product is			

10. Illustrate your understanding of the term "consent to contract".
11. Distinguish between "legality of purpose" and "legality of form".
12. Sam sees a diamond necklace in a jeweller's shop window with a price tag of €10. She goes into the shop and asks to buy it for €10. The assistant refuses, saying that the tag is an error. The price should read €10,000.
Is Sam legally entitled to buy the necklace for €10? Yes No (Circle correct answer.)
Explain your answer.

13. Abdul and Andrew are friends. Abdul offers to help Andrew study for his Business test. Andrew accepts and invites Abdul over to his house at 6.00 p.m. that night. Abdul never shows up. Andrew subsequently fails his test.
Is Andrew entitled to sue Abdul? Yes No (Circle correct answer.)
Explain your answer.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

ABQ 1

Encanta Ltd

Ann Furlong established her furniture-making business, Encanta Ltd, seven years ago after graduating from design college. She got a lot of help and advice from the Local Enterprise Office (LEO) at the time, including a grant to help her pay for the factory and equipment she needed. The rest of the money she needed came from a friend who agreed to invest in return for shares in Encanta Ltd.

Over the years, the business has developed well and Ann now employs twelve full-time staff. Ann is tough on her staff. Recently, they have started to complain about the relatively low pay and bad conditions they receive. Ann told them that if they did not like it, they could leave. In recent months, six employees have left and Ann had to spend a lot of time recruiting and training their replacements.

Ann's business is also encountering other problems. She is losing sales to competitors from Eastern Europe. Ann asked her customers why this was happening and they told her that the Eastern European furniture makers offered better, more up-to-date and more affordable designs. To make better designs, the business needs an injection of capital. Ann has told her investor that she will not be paying any dividends for the foreseeable future. She wants to reinvest all the profits in the business to pay for the production technology to make better furniture. Her investor is not happy with this.

(A) Outline, from the above information, the main stakeholders in Encanta Ltd. (20 marks)

(B) Describe a competitive relationship that is present above. (20 marks)

ABQ 2

Urlar Ltd

Jay Martin set up his own carpet-making business, Urlar Ltd, three years ago. One of Jay's customers, a building firm called Zeus Ltd, is refusing to take delivery of and pay for a quantity of carpet (worth €500,000) it ordered from Jay. It says that it no longer requires the carpet for the hotel it is building as it has obtained a cheaper quote from a Scottish firm. It has asked Jay to return the €10,000 deposit it paid him when it ordered the carpet.

Jay is angry because he has already made the carpet. He has checked his files and has a written order for the carpet from Zeus Ltd. He also has a copy of a letter he sent them thanking them for their order and telling them that he would have the carpet for them in two weeks' time.

You are Jay's legal adviser. Explain to him exactly why he has a contract with Zeus Ltd to supply them with the €500,000 carpet. Support your answer with reference to the above text. (30 marks)

EXAM SECTION 3 – LONG QUESTIONS

1. Illustrate your understanding of the role of an entrepreneur in business. **(10 marks)**
2. Describe important aspects of the relationship between employers and employees in business. **(15 marks)**
3. Explain the relationship between investors and entrepreneurs in business. **(15 marks)**
4. Describe **one** competitive and **one** cooperative relationship between any two stakeholders in a business. **(20 marks)**
5. Outline and illustrate what is meant by "invitation to treat". **(15 marks)**
6. Explain the following terms in relation to the law of contract, providing an example in each case: Offer, Consideration, Consent **(20 marks)**
7. Explain the following terms in relation to the law of contract, providing an example in each case: Specific Performance, Breach, Legality of Purpose **(20 marks)**
8. Explain the following terms in relation to the law of contract, providing an example in each case: Frustration, Capacity to Contract, Intention to Contract **(20 marks)**
9. Explain the methods by which a contract may be terminated. Give examples to illustrate your answer. **(20 marks)**
10. Evaluate the remedies for breach of contract. **(20 marks)**

NOTES

UNIT 1

CHAPTER 2

RESOLVING CONSUMER CONFLICT

LEARNING OUTCOMES

In this chapter, we will look at:

- Problems we face as consumers.
- How we can solve these problems without involving the law.
- How we can solve these problems legally.

In Chapter 1, we looked at the various stakeholders in a business. In this chapter, we concentrate on one of them – consumers. We specifically look at the conflicts consumers may have with retailers and, more importantly, how to solve these conflicts.

We will see that consumers have certain **rights** under Irish law. However, they also have **responsibilities**. Whenever a consumer buys goods or services, a basic rule applies called *caveat emptor* or "Let the buyer beware". It means that consumers are expected to be cautious and use their common sense. They should check out a product before buying it.

> A prospective house buyer should get a survey done on a house before he buys it.
> You try on a pair of shoes before you buy them.
> You should bring a sample of paint home to make sure it matches your carpet before you order ten tins of it.

A consumer is not entitled to a remedy just because he now realises the shoes he bought do not fit him or the paint he bought does not suit his décor.

However, even if consumers are careful, conflicts can still arise due to **issues** such as:

- Poor quality products/services.
- Overpriced products/services.
- Bad customer service.

There are two main ways to solve consumer conflicts, non-legislative methods and legislative methods, as follows.

Non-Legislative Methods of Solving Consumer Conflicts

This means that the consumer and the shop try to solve the conflict themselves or with the help of others, but without reference to the laws of Ireland or to any legal agency.

Non-legislative Method 1: Negotiation

Negotiation is a process of bargaining to try to reach a **mutually acceptable solution** to the conflict.

The first step in consumer conflict resolution is for the consumer to go back to the shop where he bought the item and set out his position clearly. He should explain the problem with his purchase and set out what he would like the shop to do to solve the problem.

The shop will then set out its position in relation to the complaint. It might agree to the customer's request to solve the problem or decide to offer an alternative solution, or it might reject the complaint totally.

The consumer and the shop must continue talking until they reach a compromise. This is a solution that they can both live with. It may involve each giving up something to the other.

Non-legislative Method 2: Consumers' Association of Ireland

Consumers' Association of Ireland

The Consumers' Association of Ireland (CAI) is an interest group for consumers. It is a non-profit, non-governmental organisation whose aims are to make sure that consumers get good quality products and services and good value and that consumers know their rights (see **www.thecai.ie**).

- The CAI gives the consumer expert advice on her rights and who she might contact in case of conflict regarding her consumers' rights.
- The CAI publishes a magazine called *Consumer Choice*. It publishes articles about consumers' rights and helps consumers to make good buying decisions.
- The CAI lobbies the government about consumer issues such as consumer laws and the availability of consumer advice services.

Legislative Methods of Solving Consumer Conflicts

This means that you try to solve the conflict by referring to the laws of Ireland or by using a legal organisation.

Legislative Method 1: Sale of Goods and Supply of Services Act, 1980

Consumers have a number of **rights** under this law:

1. **Goods**

   When a consumer buys goods, the goods must be:

   (a) **Of merchantable quality**. This means that the goods must be of reasonable quality and an acceptable standard, taking into account what is said about them, what they are supposed to do, how long they should last and the price the consumer paid for them.

> If a shop sold a customer an apple that was rotten on the inside, this apple would not be of merchantable quality.

(b) **Fit for their purpose**. This means that the goods must do exactly the job that they are designed for and intended to do.

> A fridge freezer must be capable of freezing food.

(c) **As described**. This means that the product must be exactly as it was portrayed on the packaging or in the brochure or orally by a salesperson and must not be misleading.

> If a yoghurt is described as vegan, it absolutely must not contain any animal products.

(d) **Identical to any sample shown**. If a shop shows the customer an example of the goods (e.g. a wallpaper sample), the full product must be absolutely the same as that example in every way.

If the goods do not satisfy the above rules, the consumer is entitled to a **remedy** (one of "3 Rs").

- If the fault is a major one and is discovered soon after the purchase, the consumer is entitled to a full **refund** provided she complains quickly. This means that she gets back all the money she paid for the product.
- Or the consumer may decide to accept a **replacement** product. This means that the retailer gives him a perfect product as a substitute for the imperfect one she sold him.
- If the goods have been used for some time or the consumer delays in making a complaint, the best he can expect is a **repair**. This means that the retailer must get the fault with the product fixed to the customer's satisfaction.

2. Services

Consumers buying services have the following rights:

(a) The person offering the services should be **fully qualified** and have the necessary skills to provide that service.

> To provide the service of installing or repairing gas appliances, the service provider must be registered as a Registered Gas Installer with the Safety Supervisory Body.

REGISTERED RGI™ GAS INSTALLER

(b) The service must be provided with proper **care and attention**. This means that the supplier must do a good job when supplying the service.

> If a garage serviced a car but failed to change the oil, this would not be proper care and attention.

(c) Any **materials** the supplier uses as part of the service must be of **good quality**.

> All the materials used by a builder to build an extension to a house must be of merchantable quality.

(d) Any **goods** sold as part of the service must be of **merchantable quality**.

If the service does not satisfy the above rules, the consumer is entitled to a remedy (one of "3 Rs").

- If the fault is a major one and is discovered soon after the purchase, the consumer is entitled to a full **refund** provided she complains quickly. This means that she gets back all the money she paid for the service.
- Or the consumer may decide to accept a **replacement** service. This means that the service provider gives him a perfect service as a substitute for the imperfect one she supplied him.

- If the service was obtained some time ago or the consumer delays in making a complaint, the best he can expect is a **repair**. This means that the service provider must fix the service to the customer's satisfaction.

3. Retailer Responsibility

The retailer is **always** legally responsible for solving the consumer's complaint. He cannot tell the consumer it is not his problem and to contact the manufacturer. The consumer bought the goods from the retailer. She has a contract with the retailer. The retailer must sort out the complaint.

If an electrical store told a customer to contact Sony in Japan over a problem he has with a Sony PlayStation which he bought in that store, this would be a breach of this act.

4. Signs Contradicting Legal Rights

It is an **offence** for a retailer to put up any sign that gives consumers the impression that they have no legal rights. No sign displayed by a shop can take away a consumer's legal right to a refund. It would be illegal for a retailer to display any of the following signs:

5. Guarantees

A guarantee is a formal **assurance** from a manufacturer or a retailer that a product will be repaired or replaced if not of a specified quality. A guarantee cannot remove a consumer's legal right to a refund, as set out under this act. It can only give extra protection for the consumer. A guarantee simply gives him greater choice. He can choose to have the goods fixed by the manufacturer under the guarantee or he can insist that the retailer deals with the complaint under the Sale of Goods and Supply of Services Act, 1980.

6. Unsolicited Goods

If a business sends a consumer goods that she did **not order**, she does not have to pay for them.

She can keep the goods, without payment, if the business does not collect them from her within 30 days of her having written to them to inform them where they can be collected. If she does not contact the business, she can keep the item after a period of six months.

Evaluation of the Sale of Goods and Supply of Services Act, 1980

This law does a good job of protecting consumers because it ensures that consumers will not lose out financially if they are unlucky enough to buy a faulty product or service.

Legislative Solution 2: Consumer Protection Act, 2007

This law deals with unfair **business to consumer** commercial practices. It does not apply to dealings between businesses. A commercial practice is any conduct or description offered by a business to a consumer before, during, or after the consumer's transaction with the business.

Unfair Commercial Practices

This law bans unfair commercial practices. A commercial practice is **unfair** if:

- The business does not give the consumer the **reasonable standard** of skill and care to which he is entitled and the business is not totally honest and upfront with the consumer.

  and

- It significantly impairs the average consumer's ability to make an informed choice and distorts his decision whether to buy the product or not.

  The act prohibits three kinds of unfair commercial practices:

1. Misleading practices	2. Aggressive practices	3. Prohibited practices

1. Misleading Practices

A commercial practice is misleading if it contains false information or misleads or **deceives** the "average consumer" and causes him to buy something that he would not have otherwise bought. Under this law, it is a criminal offence for any retailer to make a false or misleading claim about:

(a) The product or service.	(b) The price.	(c) Advertising.

(a) **Misleading claims about product.** It is against the law for a business to make false or misleading claims about its product (or service), including the following:

i. False or misleading description of goods – for example, it is illegal to sell "fake goods".

ii. The nature of the product/service.

A bakery places a sign in the window saying "Our Award Winning Bread". Unless the bread has genuinely won an award, this would be a misleading practice.

iii. The results to be expected from a product.

In 2012, an anti-wrinkle cream advert by L'Oréal showing actress Rachel Weisz was banned as misleading because the photograph had been digitally enhanced. Advertising watchdogs said the cosmetic firm had used post-production techniques misrepresenting what change in the skin's appearance is achievable by using the cream.

iv. A product's geographical origin.

For example, a picture of harps and shamrock on the packaging of a product made in China might mislead people into believing that the contents are Irish made and unless the package says otherwise, this would be a misleading practice.

(b) **Misleading claims about price.** Businesses must display the price of all goods offered for sale. It is illegal for a business to make false or misleading claims about the price or the way the price was calculated or any special offer regarding the price.

A business must state the price of its products truthfully – that includes the actual price, previous prices and recommended prices. The price shown must be the final price, inclusive of taxes and charges.

> An airline selling tickets must clearly display the full price for a flight including all taxes and charges.

For example, businesses cannot claim that goods have been sold at a higher price and are now on sale for a lower price unless the goods actually were on sale at the higher price for a "reasonable period," which is generally understood to be 28 days in the three months before the price reduction.

> This sign is only legal if the product *was* on sale in the business, at a price of €800, for a reasonable period.

(c) **Misleading advertising.** This Act states that all **information** contained in a business's advertisement must be **fair and accurate**.

All advertising should be clear, unambiguous and easily understood. Any relevant or material information should not be obscured or hidden by using disclaimers or provisos in small print. Consumers have a right to expect that what they see or what is offered is in fact what they get.

Misleading advertising, misleading information offered by a salesperson and leaving out important information that a consumer would need to make an informed purchasing decision are all considered misleading practices.

> In 2015, the High Court ruled that Dunnes Stores had engaged in misleading advertising by using phrases like "Always Better Value" in an in-store ad campaign in which it compared its prices against rival ALDI. The judge ruled that the ads included false information that was likely to mislead and deceive the average consumer, *as the comparisons were not like-for-like*. For example, the ALDI strawberry yoghurt contained 13% more fruit than the Dunnes yoghurt it was compared with.

The Advertising Standards Authority for Ireland (ASAI, *see Chapter 16*) is an independent self-regulatory body set up and financed by the advertising industry and committed, in the public interest, to ensure that all commercial marketing communications are "legal, decent, honest and truthful".

> In 2019, the ASAI listed four social media influencers on its complaints bulletin. They had all posted content about brands they were paid for without making it clear that it was advertising (e.g. by adding the hashtag #ad to their posts).

2. Aggressive Commercial Practices

A commercial practice is aggressive if the business harasses or coerces the consumer or puts him under **unfair pressure** so that he cannot make a decision of his own free will and he is pressurised into buying something that he otherwise would not.

Examples of aggressive practices include:

Staff working in a funeral home put pressure on a person whose relative has just died to buy a more expensive coffin as a mark of respect. This could amount to coercion or undue influence.

A builder calls to the door of an elderly person. He tells her that her gutters are in a dangerous condition and need replacing immediately. When she says she cannot afford it and would like him to leave, he refuses to go. He also uses threatening language and behaviour in an attempt to intimidate her into engaging his services. To increase the pressure, the builder starts work without the homeowner's explicit permission.

3. Prohibited Practices

The following practices are completely banned in all cases, and it is an offence for any business to engage in any of them:

1. Making unsupported or untrue claims that the product can cure illnesses.
2. Advertising that the business is holding a "closing down sale" or "moving to new premises sale" when the trader has no intention of closing down or moving premises.
3. Telling consumers they have won a "free gift" when in fact it will cost them to claim the gift.

You receive a letter in the mail telling you that you have won a free gift and that to claim your gift you must dial a premium rate phone line costing €2.40 a minute.

4. Running a competition offering a top prize that is not actually available at all.

A business operates a scratch-card sales promotion with a top prize of €50,000. In fact, no cards with the top prize have been printed. This would mean that no prizes of €50,000 could be awarded. This is a prohibited practice.

5. Demanding payment for unsolicited goods.

A business sends a consumer a selection of greetings cards that he never ordered. Some weeks later, it then sends him a bill demanding payment for these cards. This is a prohibited practice.

Sanctions and Penalties

The Consumer Protection Act, 2007 gives the Competition and Consumer Protection Commission (CCPC) a range of powers to ensure that businesses obey this law:

1. As a first step, if the CCPC believes that a business is engaging in an illegal act, it might accept a **written undertaking** from the business that it will stop this and that it will obey other conditions set down by the CCPC such as paying the affected consumer compensation and publishing a corrective statement.
2. If it believes a business is breaking the Consumer Protection Act, 2007, it can issue that business with a "**Compliance Notice**". A Compliance Notice is a written notice directing the business to remedy the relevant contravention of consumer protection legislation.

3. The CCPC can issue on-the-spot **fines** (called fixed payment notices) to businesses that break the price display rules set out in this Act.
4. The CCPC has the power to name and shame businesses that break the law by publishing all the details in its **Consumer Protection List** for all consumers to see.
5. It can **prosecute** (take to court) a business that breaks the Act within two years. A judge can then impose a fine of up to €3,000 and/or six months in jail on that business.

Consumers' Redress

- Any consumer who has suffered at the hands of a business that breaks this law can sue the business in court for compensation for her suffering. She may also be awarded "exemplary damages" – an extra sum of money from the business as punishment.
- The CCPC may apply on behalf of the consumer (with his permission) for a "Compensation Order" from the courts that forces a business to pay financial compensation to the consumer for any loss or damages he suffered as a result of the business breaking this law.

Evaluation of the Consumer Protection Act, 2007

This law does a good job of protecting consumers by ensuring that consumers get fair and honest information about what they are buying and the price they will have to pay. This helps them to make informed decisions and spend their money wisely.

Legislative Solution 3: Competition and Consumer Protection Commission (CCPC)

The Competition and Consumer Protection Commission is the statutory body responsible for enforcing consumer protection and competition law in Ireland. Its functions are as follows:

1. Informing Consumers of their Rights

The CCPC operates a consumer helpline whereby consumers can ring its office and get free independent information about any consumer problems. Its website provides lots of information to consumers about their rights. It also runs public awareness campaigns.

CCPC

Coimisiún um Iomaíocht agus Cosaint Tomhaltóirí | Competition and Consumer Protection Commission

Evaluation

The CCPC is very worthwhile because making consumers aware of their rights, empowers them to make informed consumer choices and encourages them to assert their rights.

2. Encouraging Compliance with Consumer Law

The CCPC has produced guidelines for businesses, providing them with information on consumer protection law. This helps them to understand what they must do in order to obey the law.

Evaluation

The CCPC helps to promote a culture of compliance with consumer protection laws.

3. **Enforcing Consumer Law**

The CCPC has the power to tackle misleading, aggressive and prohibited practices under the Consumer Protection Act, 2007. It has a range of powers to force businesses to obey the law. It can issue businesses with a compliance notice, which is a written notice ordering them to remedy their breach of the law. It can prosecute businesses that break consumer law in court.

Evaluation

This is a good thing because if Irish consumers are lied to or misled, there is a government-backed organisation, the CCPC, that will ensure that this never happens again and that the offending business is punished.

4. **Advising Government and Influencing Policy**

The CCPC highlights to the government the possible impact of proposed laws on consumer welfare. It conducts research and recommends ways in which the experience of consumers can be improved.

Evaluation

This is very beneficial because Irish consumers have a powerful advocate, the CCPC, to represent them and ensure their welfare is protected.

Legislative Solution 4: Small Claims Court

A consumer who cannot sort out a dispute with a retailer over faulty goods or services can take the retailer to the Small Claims Court.

The consumer cannot sue for an amount more than **€2,000**.

- The consumer fills in an application form (printed or online) outlining the complaint and pays a small fee to the Court.
- If the business admits liability, the Court will order the amount claimed to be paid to the consumer within a short period of time. In such a case, the consumer does not have to go to the courthouse.
- If the business fights the claim, both sides are brought together for a meeting by the Small Claims Registrar who attempts to negotiate a settlement without the need for a court hearing. This meeting is as informal as possible and private.
- If the Small Claims Registrar cannot solve the complaint, she will bring the case to the Small Claims Court for a hearing by a judge. The court hearing is held in public. Evidence must be given under oath and each party can be cross-examined by the other. Witnesses can be summoned to attend.
- The judge listens to all the evidence and makes her legally binding ruling. If she rules in the consumer's favour, the shop has four weeks to pay the compensation awarded by the judge.

Evaluation of the Small Claims Court

The Small Claims Court is effective because it ensures that all consumers can get justice easily, quickly and cheaply without involving a solicitor.

Legislative Solution 5: Ombudsman for Public Services

If a consumer thinks that she has been unfairly treated by a public service provider in Ireland, and has tried unsuccessfully to sort it out herself, she can contact the Ombudsman. The Ombudsman can investigate complaints against most organisations that deliver public services, including:

- Government departments
- All publicly funded third level education institutions (and the CAO)
- Local authorities
- The Health Services Executive (HSE).

The Ombudsman operates as follows:

Procedure	Example
1. The consumer makes a complaint to the Ombudsman in writing, by phone, by email or by calling into the office in person. There is no fee for this service.	**1.** Peter writes to the Ombudsman informing her that he has been refused Jobseeker's Benefit and that negotiation has not worked with the Department of Social Protection.
2. The Ombudsman investigates the complaint. She can go to the public body's offices. She can look at any documents she wants and can interview any member of staff.	**2.** The Ombudsman calls to the Department of Social Protection. She demands to see Peter's file. She then interviews the civil servant working on Peter's case. She discovers that the civil servant has made a mistake, in thinking that Peter had resigned from his job when in fact he was made redundant.
3. The Ombudsman considers all the evidence but only has the power to make a recommendation. Her findings are not legally binding. The public body does not have to obey her. But, if it does disobey her, she will include this in the report she makes to Dáil Éireann every year.	**3.** The Ombudsman tells the Department that it has made a mistake and recommends that it should pay Peter his Jobseeker's Benefit immediately. Although it does not have to, the Department agrees to this.

Evaluation of the Ombudsman for Public Services

The Ombudsman is very effective because the service provided is free of charge. This saves people in conflict with a public body a lot of money because they do not have to bring the public body to court.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **three** reasons why consumers might have conflicts with the businesses they buy from.
2. Explain the term *caveat emptor.*
3. Outline **one** non-legislative solution to a conflict a consumer has with a shop.
4. List **two** provisions of the Sale of Goods and Supply of Services Act, 1980.
5. Outline **three** remedies available to a consumer who buys a faulty product.
6. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	The law that states that consumers are entitled to a refund for a faulty product is called the Consumer Protection Act, 2007.	
B	All products sold by a business must be as described by the salesperson.	
C	Signs such as "no refunds" are illegal.	
D	The Sale of Goods and Supply of Services Act, 1980 states that it is illegal to mislead consumers about the price of a product.	
E	The Ombudsman for Public Services investigates complaints against the Gardaí.	

7. Outline the function of the Small Claims Court.
8. List **two** functions of the Competition and Consumer Protection Commission.
9. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Consumers' Association of Ireland	(a) Helps consumers solve their problems with certain organisations that deliver public services
2. Merchantable Quality	(b) Non-legislative solution to consumer conflict involving direct discussions between the consumer and the shop
3. Competition and Consumer Protection Commission	(c) Consumers must be cautious and check products out before they buy them
4. Small Claims Court	(d) Legislative organisation that encourages businesses to obey consumer law
5. Ombudsman for Public Services	(e) Non-governmental interest group representing consumers
6. Negotiation	(f) A product must be of a reasonable quality and an acceptable standard, taking into account the price the consumer paid for it
	(g) Legislative solution to consumer problems involving amounts no bigger than €2,000

1	2	3	4	5	6

10. Indicate by means of a tick (✓) the law relevant to each statement.

	Sale of Goods and Supply of Services Act, 1980	Consumer Protection Act, 2007
Guarantees cannot remove a consumer's right to a refund.		
The retailer has to sort out a customer's complaint.		
Services must be supplied by skilled and qualified persons.		
It is illegal to tell lies or mislead people about the price charged for a product.		

EXAM SECTION 2 – LONG QUESTIONS

1. Name **two** non-legislative solutions to consumer conflict and explain **one** of them. **(15 marks)**
2. Explain **three** legal rights of consumers under the Sale of Goods and Supply of Services Act, 1980. **(15 marks)**
3. Explain **three** legal duties of retailers under the Sale of Goods and Supply of Services Act, 1980. **(15 marks)**
4. Explain **three** legal duties of service providers under the Sale of Goods and Supply of Services Act, 1980. **(15 marks)**
5. Using examples, explain what the Consumer Protection Act, 2007 says about information supplied by businesses concerning (i) products and (ii) prices. **(20 marks)**
6. Outline the role of the Competition and Consumer Protection Commission. **(20 marks)**
7. Distinguish between "merchantable quality" and "fit for purpose". **(10 marks)**
8. Distinguish between the Consumers' Association of Ireland and the Small Claims Court. **(10 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term *caveat emptor*.
2. Identify **two** reasons for conflict between consumers and businesses and describe one non-legislative solution to the conflict.
3. Complete this sentence: The role of the Consumers' Association of Ireland is to…
4. When consumers buy products, the products must meet four standards. List these **four** standards.
5. Complete this sentence: When a consumer buys services, she has the right to expect that…
6. Name the law that protects consumers from false and misleading descriptions. List **two** of its main provisions.
7. Outline **two** functions of the Competition and Consumer Protection Commission.
8. Using examples, distinguish between non-legislative and legislative solutions to consumer conflict.
9. Complete this sentence: The role of the Small Claims Court is to…
10. Outline the role of the Ombudsman for Public Services.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Nolan Ltd

Gemma Nolan set up her T-shirt business, Nolan Ltd, two years ago after graduating from fashion college. She buys the T-shirts from a manufacturer in Wexford and then prints various designs on them. Gemma sells T-shirts with standard designs and custom designs (for hen nights, for example).

Although the business initially proved successful, Gemma has begun to notice an increasing number of problems. Recently, some customers demanded their money back after their T-shirts had shrunk in the wash, despite having been told by Gemma that the T-shirts were safe to tumble dry. Gemma informed them that it was a factory error and gave the customers the manufacturer's address in Wexford. Other customers have complained that their T-shirts have ripped and that for €85 each, they expected better. These complaints prompted Gemma to put signs up in her shop stating "'Refunds at Owner's discretion".

Gemma Nolan is meeting her obligations under the Sale of Goods and Supply of Services Act, 1980.
Would you agree with this statement?
Outline reasons for your answer, with reference to the text of the ABQ. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Illustrate how the concept of *caveat emptor* protects businesses. **(10 marks)**
2. Explain **two** non-legislative solutions to consumer conflict. **(20 marks)**
3. Explain the provisions of the Consumer Protection Act, 2007 with regards to product, price and advertising. Illustrate your answer with relevant examples. **(20 marks)**
4. Describe the impact of the Competition and Consumer Protection Commission on business in Ireland. **(20 marks)**
5. Evaluate the role of the Small Claims Court in dealing with consumer conflict. **(25 marks)**
6. Under the terms of the Sale of Goods and Supply of Services Act, 1980 explain the rights of consumers when buying goods. **(20 marks)**

UNIT 1

CHAPTER 3

RESOLVING EMPLOYER–EMPLOYEE CONFLICT

LEARNING OUTCOMES

In this chapter, we will look at:

- Problems employees may have with their employer.
- How employees can try to solve these problems without involving the law.
- Legal organisations that can help disputing employees and employers sort out their differences.
- The legal rights of employees.
- The types of industrial action employees can take to fight for their cause.

In Chapter 1, we looked at all the various stakeholders in a business. In this chapter, we concentrate on one of them – employees. We specifically look at the conflicts employees may have with their employers and, more importantly, how to solve these conflicts.

Industrial Relations

The term "industrial relations" (IR) refers to the relationship between employers and employees. It covers issues such as how they communicate with each other, work together and generally get along with each other. Industrial relations in a business can be good or bad.

There are a number of reasons why employers and employees have a bad relationship, including the following **causes of conflict**:

- Low pay
- Poor working conditions
- Redundancies (this is when workers are let go from their jobs)
- Promotions (those who do not get a promotion will be annoyed)

Pay Claims

We have just seen that a major cause of industrial relations conflict is low pay. Employees can make four different pay claims. In other words, there are four possible reasons an employee might offer her employer to justify a pay rise:

PAY CLAIM	EXPLANATION
Comparability claim	Employees ask for a pay rise because other employees doing similar work got one. For example, when Luas drivers got a pay rise in 2016, Dublin Bus drivers then asked their employer for a similar pay rise.
Relativity claim	Sometimes the pay of certain employees is linked to the pay of other employees, even though they do totally different jobs. For example, a TD's salary is linked to that of the civil service. So if civil servants get a pay rise, TDs will ask for one.
Productivity claim	Employees ask for a pay rise to compensate them for having to work harder or cope with changes introduced by the employer.
Cost of living claim	Employees ask for a pay rise because they cannot afford to live on the wages they get. They cannot afford to buy all the things they want because the prices of goods and services they buy are increasing (inflation).

There are two main ways to solve employer–employee conflicts: non-legislative and legislative methods.

Non-Legislative Methods of Solving Industrial Relations Conflicts

This means that the employer and employees try to solve the conflict themselves or with the help of others but without reference to the laws of Ireland or to any legal agency.

Non-Legislative Solution 1: Negotiation

The first step in industrial relations conflict resolution is direct negotiations between the employer and the employees. Both parties sit down together to **discuss** the issue. The employees may be represented by their trade union (see page 32). The employer may be represented by management.

Each side sets out its position. They state what they think the problem is and how they want to solve it. They discuss the issue and try to reach a solution that they can both accept. This may involve compromise. Both sides may have to give up something to the other in order to reach an agreement.

When both sides agree on a deal, it is called a **collective agreement**. However, this is not legally binding.

Non-Legislative Solution 2: Conciliation

Conciliation means that the two parties in a dispute ask a **neutral and impartial outsider**, called a conciliator, to help them solve their problems. The conciliator encourages both sides to meet and talk out their problems. She does everything she can to get them to reach a mutually acceptable, negotiated solution to their problem.

She acts as a facilitator and offers them advice and guidance in the search for a possible solution to their conflict. However, she has no power to tell them what to do.

Non-Legislative Solution 3: Arbitration

Arbitration is when the employer and employees ask a **neutral and impartial person**, called an arbitrator, to investigate the dispute and make a ruling, like a referee, to solve the problem. The arbitrator listens to both sides' arguments, investigates the dispute and gives her judgement as to how the dispute should be solved. *She tells them what to do to solve the dispute.*

Trade Unions

A trade union is an interest group that aims to protect and advance the interests of employees in the workplace. Employees pay a subscription (fee) to join the union. They then enjoy all the benefits of being in a trade union.

There are many trade unions in Ireland. Sometimes they represent workers in a particular profession, such as the Irish Nurses and Midwives Organisation (INMO) or the Association of Secondary Teachers in Ireland (ASTI). One example of a trade union that represents different professions is the SIPTU (Services, Industrial, Professional and Technical Union). It is the largest trade union in Ireland and represents over 180,000 workers.

Trade unions serve many **functions and provide several benefits**:

1. **Fight for better pay and working conditions for union members**

   The union may have professional negotiators who will bargain with the employer on behalf of the union members. These professional negotiators may get a better deal for the members than if each employee negotiated for himself.

2. **Represent employees in disputes**

   If an individual employee has a dispute with her employer (perhaps over disciplinary procedures or bullying, for example), the union will take up her case. She does not have to negotiate with the employer. The union will represent her and negotiate on her behalf. The union will pay any legal bills necessary to fight for her rights.

3. **Provide information on employee rights and entitlements**

   The trade union provides its members with information on their legal rights and entitlements, such as minimum wage, legally required rest periods, etc. This helps ensure that employees are not exploited by employers. It can also provide them with expert legal advice.

4. **Protect union members' interests**

   The trade union will fight to protect its members' interests. It will use its strength in numbers to fight to keep their jobs. If members do lose their jobs, the trade union will fight to get them the best redundancy payment possible.

Union members (i.e. employees) elect a **shop steward** to represent them. A shop steward is a spokesperson elected by employees as their official union representative in the workplace. Her functions are to:

- Recruit new members for the union.
- Represent members in negotiations with management.
- Keep members up to date with information from union head office.
- Inform union head office of members' concerns.

Irish Congress of Trade Unions (ICTU)

ICTU is an interest group representing almost all the trade unions in Ireland. By speaking for almost the entire Irish trade union movement, ICTU has a lot of power and ensures that Irish workers are listened to.

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

The **functions** of ICTU are to:

1. **Give permission for all-out strikes**

   If *all* the workers in a business want to go out on strike, they need permission from ICTU. For example, if all the workers in various unions in Aer Lingus want to go on strike as a protest, they can only do so with ICTU's permission.

2. **Settle disputes between unions**

   If two unions are having a dispute, ICTU will mediate in the dispute to help them sort out their differences.

3. **Provide training to unions**

   ICTU will train shop stewards and other union officials in the skills needed to run a union properly, such as negotiation skills, employee rights and so on.

4. **Promote the cause of the trade union movement**

   ICTU speaks for well over 800,000 workers on the island of Ireland. It uses Public Relations techniques to put forward the arguments of workers and to win public support for workers. It also makes submissions to the Minister for Finance every year to do something in his/her budget for working people.

Legislative Methods of Solving Industrial Relations Conflicts

This means that the employer and employees try to solve the conflict by referring to the laws of Ireland or by using a legal organisation to help them.

Legislative Solution 1: Industrial Relations Act, 1990

1. **Trade Dispute**

   This law states that employees can only take industrial action (see page 46) in a dispute related to their jobs. This is called a trade dispute.

A trade dispute is defined as a **conflict** between an **employer and employees** in connection with the employment or non-employment of employees and the terms and conditions of the job.

LEGITIMATE TRADE DISPUTE	ILLEGAL TRADE DISPUTE
Pay and conditions of employment Employees are entitled to take industrial action if they are arguing with their employer about their wages, overtime rates, number of holidays and working conditions (safety, proper hygiene, adequate heating, etc.) of the job. **Dismissal or suspension of an employee** Employees are entitled to take industrial action if they disagree with their employer about a fellow employee being let go or being disciplined by means of a suspension. **Employer refuses to recognise the union** Employees are entitled to take industrial action if their employer refuses to speak to their trade union. For example, Ryanair pilots served the company with strike notice because it refused to speak to their union. In December 2017, the company gave in and agreed that it would, for the first time in its 30-year history, negotiate with unions. **Discrimination** Employees are entitled to take industrial action if their employer treats certain workers less favourably than other workers. **Demarcation** Employees are entitled to take industrial action if they disagree with their employer about the things she asks them to do. If they feel it is not in their job description, they are entitled to protest.	**Disputes over closed shop agreements** A "closed shop" is where workers have only one choice of union to join. The management will speak only to that union. **Political issues** Workers are entitled to protest against the government, but they cannot leave work to do it. It is not fair to punish their employer for something the government does. It is illegal under this law. **Disagreement** between management and employees about how the business should be run (e.g. disputes over pricing policy) is not a valid cause for industrial action.

2. Secret Ballot and Week's Notice

If employees want to take industrial action against their employer (e.g. go on strike):

- Their trade union must hold a **secret ballot** (see below) of all union members, and, if a majority of them votes for industrial action,
- Their decision to engage in industrial action must be **sanctioned** (authorised) by ICTU; and then
- The trade union must give the employer one week's **notice** before the employees can take that industrial action.

A **secret ballot** means that the workers must hold a vote.

The vote cannot be a show of hands in public. It must be private. Each worker is given a voting paper with the option to vote YES or NO for the strike. Each worker fills in her voting paper in private and then places it into a sealed voting box. She does not identify herself anywhere on the voting paper.

The reason for a secret ballot is to make sure that employees are not intimidated by others into voting a certain way.

3. **Primary Picketing**

If the union holds the secret ballot and a majority of members vote for industrial action, the industrial action is sanctioned by ICTU and the union gives the employer seven days' notice of the strike, the employees are allowed stop working and to picket peacefully **outside their employer's business**. This is called primary picketing.

Picketing involves the employees protesting outside their employer's business premises by walking around outside it. They often carry placards. The aim of picketing is for the employees to draw attention to and get **public sympathy** for their case and to discourage customers from entering the business. The picketing must be peaceful, with no intimidation or obstruction.

4. **Secondary Picketing**

This means that the employees protest outside **another employer's business premises**. They can only do this if the other employer is helping their boss to break their strike. Otherwise, secondary picketing is illegal.

Dunnes Stores cashiers are out on strike. The company cannot open the shops because there is no one to take the money. Dunnes is losing a lot of money and are about to give in to the cashiers' demands for more pay when Tesco sends over some of its cashiers to operate Dunnes' cash registers. Because Tesco interfered in their strike, Dunnes' workers can now protest outside Tesco as well.

5. **Immunity**

Employees cannot be sued by their employer for damages (e.g. loss of profits) caused by the strike and peaceful picketing, provided that they had the secret ballot and gave the week's notice. Neither can the employer of striking employees go to court to get a judge to stop the employees picketing provided that they had the secret ballot and gave the week's notice. The Gardaí **cannot arrest or move** on employees who are picketing legitimately and peacefully.

Evaluation of the Industrial Relations Act, 1990

This Act does a good job of protecting employees because it ensures that Irish employees cannot be bullied into striking against their will. This law ensures that all ballots to strike are secret so that employees cannot be intimidated by others.

Legislative Solution 2: Workplace Relations Commission

The Workplace Relations Commission (WRC) was set up by the government to maintain and improve good workplace relations and to help solve industrial disputes.

Functions of the Workplace Relations Commission

1. It provides a **conciliation service**. An Industrial Relations Officer at the WRC holds a "conciliation conference" with the disputing employer and employees. The Industrial Relations Officer is neutral and impartial. She helps the two parties to sort out their differences by encouraging them to talk to each other and negotiate a solution to their problem themselves. She acts as a facilitator and offers them advice and guidance in the search for a possible solution to their conflict.

Evaluation

The majority of all cases referred for conciliation are settled by conciliation. Furthermore, conciliation is a free service to both the employer and the employees.

2. It provides an industrial relations **advisory service**. It works with employers and employees to help them to develop good industrial relations practices tailored to suit their needs. For example, it will help them review their grievance, communication and negotiation procedures and benchmark them against best practice with a view to improving them.

Evaluation

This is a very useful service as the WRC provides independent, impartial, free and professional advice to both employers and employees on how to get on better which helps to prevent industrial disputes.

3. It draws up **codes of practice**. Codes of practice are written rules that define how employers and employees should act in given situations. They offer guidance to employers and employees on particular issues and are intended to have strong moral authority. For example, there is a code of practice that provides guidance on a worker's right to "disconnect" – the right to switch off after work and not respond immediately to emails, calls and messages.

Evaluation

Following the codes of practice will lead to a better relationship between employers and employees and thus fewer disputes.

4. It provides an **adjudication service**. The role of the Adjudication Officer is to invite the employee and employer to a hearing of their dispute (a dispute where it is alleged that the employee has been denied his legal employment rights). The Adjudication Officer will ask each side to state its case and present any evidence relevant to the complaint. Having considered the evidence, she then gives her legally binding decision on how it is to be solved, in writing.

Evaluation

The Adjudication Officer has the power to ensure that an employer cannot deny an employee her legal rights and that she must be treated fairly in accordance with the law.

5. It provides a **mediation service**. Mediation is a form of dispute resolution in which a neutral third person helps the parties achieve a voluntary resolution of a complaint. It is offered by the WRC as an alternative to formal adjudication. The mediator is impartial and does not take sides. He discusses the issues with both parties in order to help them reach a better understanding of each other's position. He works with them to reach a solution to their conflict through agreement, rather than a formal investigation. Once a mediated settlement is agreed and signed by the parties it is legally binding.

Evaluation

The outcome of the mediation process remains in the control of the parties, therefore any agreement reached must be acceptable to both sides.

6. It provides an **inspection service**. WRC inspectors visit workplaces and carry out investigations to see if employers are obeying employment law. They can examine the business's records and interview employees as part of their investigations.

   If the inspector finds that the employer has broken the law, she has the power to enforce the law by issuing a penalty to the employer.

Evaluation

The WRC ensures that Irish employers obey employment law and that employees really are protected by the law.

Legislative Solution 3: Labour Court

The Labour Court was established to provide a free service for solving industrial relations problems. It is not a court of law. It is an industrial relations tribunal. It is the court of last resort. Cases should be referred to the Labour Court only when all other efforts to resolve the dispute have failed.

The Labour Court has the following **functions**:

1. Investigation of Industrial Disputes

The Labour Court investigates industrial disputes that could not be solved by the Workplace Relations Commission. It holds a formal hearing of the complaint, at which the employer and employee are asked to state their case and present any evidence relevant to the complaint. When it has heard all the evidence, the Labour Court then issues a **non-binding recommendation** giving its opinion as what should be done to solve the dispute.

Evaluation

The Labour Court provides a free and expert service that may help disputing employers and employees solve a conflict that could not be solved elsewhere.

2. Hearing Appeals

The Labour Court hears appeals from an employer or employee against the decision previously made by an Adjudication Officer in their employment rights case. The Labour Court listens to all the evidence again and makes a legally binding "**determination**" (judgement) on the matter.

Evaluation

The Labour Court does a good job in dealing with appeals in that its rulings on appeals of these matters are legally binding and thus they resolve the issue once and for all.

3. Interpretation of Codes of Practice

The Labour Court interprets the Workplace Relations Commission's codes of practice. This means that the Labour Court gives its opinion as to the correct explanation of the WRC's codes of good practice. It also investigates any breaches of the WRC's codes of good practice by either the employer or the employees.

Evaluation

The Labour Court ensures that industrial relations in Ireland meet world class standards by holding employers and employees to best industrial relations practice.

4. Registering Collective Agreements

The Labour Court registers collective agreements made between employers and employees. Registering agreements in this way makes them legally binding on both sides. Then, if either party breaks its side of the agreement, the other party can take it to the Labour Court which will investigate the breach and make a legally binding decision on the issue.

Evaluation

The Labour Court gives employers and employees the confidence of knowing that an agreement they made cannot be broken once the Labour Court registers it.

5. **Establishment of Joint Labour Committees**

   The Labour Court establishes Joint Labour Committees (JLC). These consist of representatives of employers and workers in a particular industry sector (for example, agriculture, catering, hairdressing, hotels and so on). They meet periodically to discuss and agree terms and conditions to apply to specified workers in that sector. When a JLC agrees terms and conditions, it makes proposals to the Labour Court which in turn makes an Employment Regulation Order. This makes the agreed pay and conditions legally binding.

Evaluation

The Labour Court helps employers and employees in certain industry sectors have good industrial relations by providing a mechanism for agreeing pay and conditions in that sector.

Legislative Solution 4: Unfair Dismissals Act, 1977–2015

The purpose of this law is to protect employees from being unfairly sacked from their jobs by setting out criteria by which dismissals are judged to be unfair and by providing an adjudication system and redress for an employee found to be unfairly dismissed.

- This law states that **every** sacking is unfair and therefore illegal unless the employer can prove that it was fair.
- However, the law only applies to employees with one year's continuous service with the employer, although this requirement that you must be in the job one year does not apply in the case of dismissals arising from pregnancy, maternity, adoptive, parental or carer leave and trade union membership or activities.
- The law does not apply to employees aged under 16 or the normal retiring age in the job and older.

Reasons for Fair Dismissal

The reasons for fair dismissal (i.e., an employee **can** legally be sacked for these reasons) are set out in this law as follows:

1. **Not qualified**

   An employee who misled her employer about her qualifications when she applied for the job and who does not in fact have the qualifications needed to do the job can be sacked. An employee can also be sacked where the employer made continued employment conditional upon the employee obtaining further qualifications and the employee failed to achieve these, having been given a reasonable opportunity to do so.

2. **Incompetent**

   An employee who consistently fails to meet the standards of work expected of him can be sacked. His job performance is unsatisfactory.

   A waiter in a restaurant who constantly gets customers' orders wrong and is always overcharging customers can be sacked.

   A football manager whose team loses every match can be sacked.

3. **Incapable of doing the job**

   An employee can be sacked because she physically cannot do the work expected of her due to lateness, absenteeism, persistent absence through illness and so on.

4. **Misconduct**

   It is fair to dismiss an employee who behaves in an unacceptable manner. Gross misconduct may give rise to instant dismissal without notice or pay in lieu of notice. Examples of gross misconduct include assault, drunkenness, stealing and bullying.

   > A security guard was fairly sacked for watching videos on YouTube while a gang broke into a car park he was guarding and damaged a car. The guard falsified a document to indicate that he had undertaken all the security checks.

   Ordinary instances of misconduct may be a series of minor incidents which, when taken together, are enough to warrant dismissal, although the employer is obliged to give the employee notice or pay in lieu of notice in this type of situation.

5. **Redundancies**

   An employee can be sacked if his job is no longer required by the business and there is an economic justification for this. This may be because the business is closing down or because the business is suffering financially and cannot afford to keep him on. The job is being done away with, so the employee sacked cannot be replaced by someone else.

Reasons for Unfair Dismissal

The reasons for unfair dismissal (i.e., an employee **cannot** be sacked for these reasons) are set out in this law as follows:

1. **Pregnancy**

   An employee cannot be sacked just because she is pregnant or because of matters relating to her pregnancy such as giving birth, breastfeeding, going to antenatal classes, taking maternity leave and so on.

2. **Union activities**

   An employee cannot be sacked just because he is in or is about to join a trade union or because he engages in trade union activities either in work or outside of work.

3. **Beliefs**

   An employee cannot be sacked just because of his religious or political beliefs.

4. **Race**

   An employee cannot be sacked just because of the colour of her skin or her ethnic background.

5. **Age**

   An employee cannot be sacked just because of her age (provided that she is between 16 and the normal retiring age for the job).

6. **Suing boss**

   An employee cannot be sacked just because she is suing her employer or is a witness in a case against her employer.

7. **Traveller**

   An employee cannot be sacked just because he is a member of the Traveller community.

8. **Sexuality**

   An employee cannot be sacked just because of his sexual orientation.

Procedures To Follow Before Dismissing

An employer should adopt the following courses of action before he dismisses an employee:

1. **Counselling**

   The employee who is facing dismissal should firstly be given advice by her employer on how to improve. He should give her coaching and support. She should be given a chance to overcome her weaknesses. She should be told what she needs to do to rectify the situation and informed of the consequences if she fails to improve.

2. **Formal verbal warning**

   The employer speaks to the employee and tells her of the reasons why she may possibly be dismissed. He also informs her of the evidence (such as allegations or complaints) he has for her dismissal. The employee must be given an opportunity to respond fully to any such allegations or complaints. This verbal warning must be recorded on the employee's record.

3. **Written warnings**

   If the situation does not improve, the employer should follow up the verbal warning by giving the employee a formal letter warning her of the reasons for her possible dismissal and the evidence for it. A copy should be sent to the employee's representative (shop steward for example). If necessary, a final written warning may be issued to the employee.

4. **Employee's right of appeal**

   The employee has the right to be represented at a hearing into her dismissal. This hearing must be fair and impartial. It must consider the evidence presented by the employer and the representations made by the employee or her representative and deliver an unbiased determination of the matter.

Redress for Unfair Dismissal

If an employee feels that she has been unfairly sacked, she can take a case against her employer to an Adjudication Officer at the Workplace Relations Commission. She must do so in writing and within 6 months of the dismissal.

The Adjudication Officer will investigate the dispute. She will ask each side to state its case and present any evidence relevant to the complaint. Having considered the evidence, she then gives her legally binding decision on how it is to be solved, in writing.

Note: It is up to the employer to prove that the dismissal was fair. The burden of proof lies with the employer. The employer will have to prove that she had a fair reason to sack the employee and that she followed correct procedures.

If the employee wins her case for unfair dismissal, she is entitled to one of the following types of **redress**:

1. **Re-instatement**
   - This means that the employee is treated as if she had never been sacked at all.
   - The employee is given her old job back with exactly the same pay and conditions.
   - She is also entitled to full back pay from the date she was unfairly sacked for loss of earnings.
   - She is also entitled to any improvements in pay and conditions (e.g. pay rise) that occurred since she was unfairly dismissed.

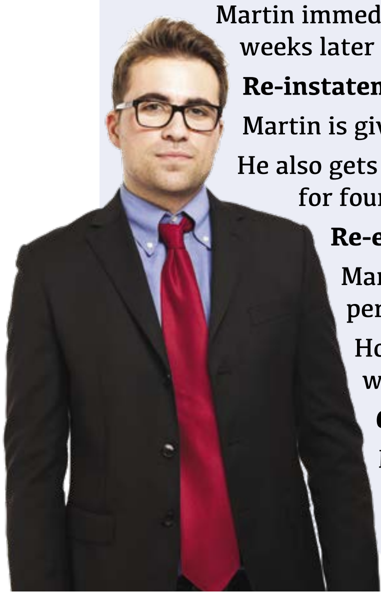
2. **Re-engagement**
   - The employee is given her old job back but only from a particular date, for example, the date she wins her case.
   - This means that she is not entitled to back pay from the date she was sacked for loss of earnings.
   - This remedy is often used where the employee contributed to the dismissal, even though it is still an unfair dismissal.

For example, a manager was sacked for posting very offensive messages about his employees on a managers' WhatsApp group, but the company did not follow correct procedures when sacking him.

3. **Compensation**
   - The employee is paid an amount of money by her former employer as compensation for the financial loss she suffered as a result of the unfair dismissal.
   - There is no compensation for stress or injury to her feelings arising from the dismissal.
   - The maximum compensation is 2 years' pay.

Example for All Three Scenarios

Martin was employed as a Grade VI clerk in a bank. His salary was €1,000 gross per week. His boss sacked him when Martin tried to organise a trade union in the bank. Martin immediately took a case for unfair dismissal against his boss and four weeks later he won his case. He will be awarded one of the following:



Re-instatement

Martin is given his old job in the bank back – Grade VI clerk on €1,000 per week. He also gets €4,000 for loss of earnings while unfairly sacked (€1,000 a week for four weeks).

Re-engagement

Martin is given his old job in the bank back – Grade VI clerk on €1,000 per week from the date he won his case for unfair dismissal. However, he does not get any back pay for the four weeks without a job.

Compensation

Martin gets compensation of €10,000 made up from €4,000 for loss of earnings to date of winning the case and €6,000, based on the Adjudication Officer's estimate that it will take him another six weeks to find a new job.

Constructive Dismissal

This is where an employee resigns from his job because of his employer's conduct towards him. His employer deliberately makes his life so miserable that he cannot take it any longer and resigns from the job. This too is illegal.

A restaurant manager constantly makes rude remarks to a staff member and humiliates her in front of customers and other employees. He gives her all the dirty jobs to do. She becomes so upset at this treatment that she resigns to escape it.

The employee can take a case against the employer to an Adjudication Officer at the Workplace Relations Commission. The Adjudication Officer will investigate the dispute. He will ask each side to state its case and present any evidence relevant to the complaint. Having considered the evidence, he then gives his legally binding decision on how it is to be solved, in writing.

In the case of constructive dismissal, the **employee** must prove that he was forced to resign.

UNFAIR DISMISSAL	CONSTRUCTIVE DISMISSAL
Employee is sacked by the boss.	Employee resigns due to alleged bullying by the boss.
Employer must prove the case.	Employee must prove the case.

Evaluation of the Unfair Dismissals Act, 1977–2015

This Act does a good job of protecting employees because employees cannot lose their livelihood for spurious reasons such as their employer not liking them. The employer has to have a legitimate reason and has to prove she had a legitimate reason to sack an employee.

Legislative Solution 5: Employment Equality Act, 1998–2015

This law prohibits **discrimination** at work. Discrimination is defined as treating an employee less favourably than another is, has been, or would be treated in a comparable situation, because of who he/she is, on any of the following nine grounds:

Gender	It is illegal to treat men, women or transgender employees less favourably than each other. In 2019, a primary school in County Sligo was ordered to pay over €90,000 in compensation to a deputy principal when she did not get the job of principal at the school simply because she was female. She had better qualifications and more experience than the man who got the promotion.
Civil status	It is illegal to treat single, married, divorced, separated, widowed employees or employees in a civil partnership less favourably than each other.
Family status	It is illegal to treat employees who are parents, employees without children or employees caring for relatives less favourably than each other. For example, an employer only allows employees who have young children to take their holidays in July and August and makes those without young children take their holidays in the other ten months of the year.
Age	It is illegal to treat younger or older employees less favourably than each other.

Disability	It is illegal to treat employees who have physical, intellectual, learning or emotional disabilities less favourably than employees without such disabilities.
Race	It is illegal to treat employees of different skin colour, nationality, or ethnic origin less favourably than each other.
Sexuality	It is illegal to treat gay, lesbian, bisexual or heterosexual employees less favourably than each other.
Religious beliefs	It is illegal to treat employees of different religious beliefs, backgrounds, outlooks or of no religion less favourably than each other.
Traveller	It is illegal to treat Traveller employees less favourably than settled employees.

This law bans the following **types of discrimination**:

Direct discrimination	Direct discrimination is when someone is treated less favourably than other people on purpose, because of who they are.
Indirect discrimination	Indirect discrimination is when someone is treated less favourably than other people because there are requirements which they would find harder than others to fulfil. For example, a job advertisement states that people must be taller than a certain height in order to apply. This may put women, and people from some ethnic backgrounds, at a disadvantage. This is indirect discrimination, unless the employer can show that the requirement is essential, appropriate and necessary.
Discrimination by association	Discrimination by association happens when a person is treated less favourably simply because they know or are connected to another person who is labelled as being in one of the groups covered by the nine discriminatory grounds. For example, a person is harassed at work because a member of their family is gay.
Discrimination by imputation	Discrimination by imputation is when someone is treated less favourably than other people because they are labelled as being in one of the groups covered by the nine discriminatory grounds. For example, an employer will not let an employee handle money because their supervisor thinks that they are a member of the Traveller Community.

- It is illegal for employers to **discriminate** when hiring, training and promoting employees and in the conditions of employment they offer employees.

- It is illegal to publish or display any advertisement which relates to employment and which includes words or images which appear to show that certain people or groups are **not welcome to apply**. For example, the following ads would be illegal under this act:

This is age discrimination.

This is gender discrimination.

- This law makes "**equal pay for like work**" a legal requirement. Employees doing the same, similar or work of equal value must be paid the same. It is a term of everyone's contract of employment that there is an entitlement to equal pay. Equal pay claims can be taken on any of the nine discriminatory grounds.
- **Positive action is allowed** to promote equal opportunities. This means that employers can take steps that are not required under the law to promote equality for all their workers. In particular, employers can take positive action measures in relation to the gender ground, people over 50, people with disabilities and members of the Traveller Community.

> It would be a "positive action" on behalf of an employer if they provided a childcare facility on the premises. This might give someone with a young family the same opportunity of employment as someone without children.

- This law makes harassment and sexual **harassment** at work illegal. Harassment is defined as any form of unwanted conduct related to any of the nine discriminatory grounds which has the purpose or effect of violating a person's dignity and creating an intimidating, hostile, degrading, humiliating or offensive environment for the person.

  Sexual harassment is any form of unwanted verbal, non-verbal or physical conduct of a sexual nature which has the purpose or effect of violating a person's dignity and creating an intimidating, hostile, degrading, humiliating or offensive environment for the person.

Investigation

If an employee feels that she has been the victim of workplace discrimination, she can take a case against her employer to an Adjudication Officer at the Workplace Relations Commission. She must do so within six months of the discrimination.

The Adjudication Officer will then hold a hearing into the case. At the hearing, the employer and employee will be asked to state their case and present any evidence relevant to the complaint. The Adjudication Officer considers all the evidence and makes a legally binding judgement on the matter by issuing a written "Decision" to both sides. This written Decision is then published on the WRC website.

Remedies

Where the Adjudication Officer finds in favour of the employee, the following remedies may be awarded:

- In equal pay claims, an Adjudication Officer can order that the employee receives equal pay in the future, back pay for the money she lost out on in the past and compensation for the discrimination.
- In other cases, if you are an employee, an Adjudication Officer can order that you receive equal treatment in future. You may also receive compensation of up to two years' pay, or €40,000 if that is more. If the victim of the discrimination was not an employee, compensation of up to €13,000 may be awarded to the victim.

Evaluation of the Employment Equality Act, 1998–2015

This Act does a good job of protecting employees because this law, through positive action, deliberately sets out to help nine categories of persons who have historically been the victims of workplace discrimination. Thus, it attempts to right the wrongs done to them by encouraging their hiring and promotion in businesses.

Industrial Action

If the conflict between an employer and employees cannot be resolved, the employees might take industrial action. But this should be the last step.

The following are example of industrial action that are permitted under Irish law:

Legal Types of Industrial Action

Official Strike

Employees hold a secret vote to see if a majority wants to go on strike. If so, they then give their employer seven days' notice of the strike. The union then tells the employees to stop working and pays them strike pay.

The employees may then picket outside their employer's business premises in an attempt to attract some publicity and support for their cause and to persuade customers not to enter the premises.

Work-to-Rule

Employees carry out their work as per their employment contract. They do their basic job and nothing else. They are completely inflexible and refuse to do any extras to help their boss. This slows down production. Because the employees do not stop working, they still get paid.

For example, when Irish nurses went on a work-to-rule in 2007, they did their regular nursing duties but refused to answer phone calls or use computers. This caused a lot of inconvenience for hospital managers.

Overtime Ban

Workers refuse to do any overtime. This is an especially effective way to put pressure on the employer when the business is very busy.

In 2016, Luas drivers held an overtime ban when a rugby match was scheduled in Dublin, making it very busy. Their refusal to work overtime put a lot of pressure on management.

Token Stoppage

Workers stop working for a brief, limited period to show their frustration with their employer.

The action carries an implied threat that they will take more serious action if a resolution to their issue is not found.

The following are examples of industrial action that is **not permitted** under Irish law:

Illegal Types of Industrial Action

Unofficial Strike

This is when workers go on strike without having a secret vote and/or without giving their employer a week's notice. The union does not recognise the strike.

Wildcat Strike

This is an unofficial strike. Workers go on strike without any notice or warning at all. They literally walk off the job. This is illegal.

Political Strike

Workers protest against the government by stopping work. This is illegal. You are quite entitled to protest against the government, but you cannot leave work to do it. It is not fair to punish your employer for something the government does.

Sympathetic Strike

A group of workers not involved in the dispute go out on strike to show their support for the disputing workers.

> For example, teachers go out on strike to support striking nurses.

Negative Impact of Industrial Action

Industrial action has a negative impact on all the stakeholders in a business and therefore should be avoided where possible.

- Strikes impact negatively on the employees. When they are out on strike, they do not get paid as they are not working.

  > When Ryanair pilots went on strike in 2019, they did not have any money coming in and therefore may have run into difficulties paying their bills.

- Strikes impact negatively on the entrepreneur. They can reduce her sales and profits. When her workers are out on strike, her customers may decide not to enter her business. They might refuse to cross the picket.

  > When Tesco workers went on strike, many customers shopped elsewhere.

- Strikes impact negatively on consumers. When the workers are on strike, they are not making the products that consumers need and want. Therefore, they will not be able get the products they desire.

  > Many Ryanair customers experienced disruptions and delays due to flight cancellations during the Ryanair pilot strike.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **four** reasons for industrial relations conflict.
2. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Productivity claim
2. Cost of living claim
3. Comparability claim
4. Official strike
5. Overtime ban
6. Wildcat strike

Column 2: Explanations
(a) Employees protest against the government by going on strike.
(b) Employees protest against their employer by stopping work following a secret ballot and seven days' warning to their employer.
(c) Employees walk off the job in protest with no notice at all.
(d) Employees demand a pay rise to compensate them for inflation.
(e) Employees demand a pay rise to compensate them for working harder.
(f) Workers refuse to do any overtime.
(g) Employees demand a pay rise because others doing the same job got one.

1	2	3	4	5	6

3. Explain the term "trade union" and give two examples of Irish trade unions.
4. Name **three** non-legislative solutions to industrial relations conflict and explain any one of them.
5. Outline the role of a shop steward.
6. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Employees must vote by show of hands before going on strike.	
B	Primary picketing means that employees protest at their employer's business by walking around outside.	
C	The Workplace Relations Commission is a non-legislative solution to employer–employee problems.	
D	Employees on an official strike cannot be sued by their boss for loss of profits.	
E	Employees must give their boss seven days' warning before they go on strike.	

7. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Employees can strike because they disagree with the way their boss runs the business.	
B	JLC stands for Joint Labour Commission.	
C	The Workplace Relations Commission provides an arbitration service.	
D	The Labour Court's rulings are always legally binding.	
E	The Labour Court registers agreements between employers and employees to make them legally binding.	

8. List **four** fair reasons why an employee can be sacked.
9. List **four** reasons for unfair dismissal.
10. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Industrial Relations Act, 1990	(a) Provides an arbitration service to disputing employers and employees
2. Unfair Dismissals Act, 1977–2015	(b) Organisation that represents the trade union movement in Ireland
3. Employment Equality Act, 1998–2015	(c) Written documents that set out the correct way for employers and employees to behave
4. Workplace Relations Commission	(d) Makes it illegal for employers to sack employees without a fair reason
5. ICTU	(e) Sets out the legal rules for employees taking industrial action
6. Codes of practice	(f) Provides the service of an Adjudication Officer
	(g) Makes equal pay for equal work a legal requirement

1	2	3	4	5	6

11. Write out what the following letters stand for: ICTU SIPTU WRC

EXAM SECTION 2 – LONG QUESTIONS

1. Your friend has just started working and is thinking about joining SIPTU. Advise her of the benefits of joining a trade union. **(20 marks)**
2. Explain **three** functions of ICTU. **(15 marks)**
3. Distinguish between "arbitration" and "conciliation". **(20 marks)**
4. Describe the role of the Workplace Relations Commission. **(20 marks)**
5. Outline **three** forms of redress available to an employee who has been unfairly dismissed. **(15 marks)**
6. List **four** categories under which workplace discrimination is illegal. **(20 marks)**
7. Explain the terms "shop steward" and "trade dispute". **(20 marks)**
8. Name **two** legal organisations that help resolve trade disputes and outline **three** functions of one of them. **(25 marks)**
9. Describe **two** types of official industrial action that employees can legally take. **(10 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Complete this sentence: Arbitration involves…
2. The following table shows four causes of industrial unrest. For each cause, tick (✓) whether that cause would constitute a reason for a legitimate trade dispute or an illegal dispute under the Industrial Relations Act, 1990.

Cause of unrest	Legitimate trade dispute	Illegal dispute
Protest against the government's housing policies		
Protest against bad pay and conditions		
Argument over employee suspensions		
Argument about the employer increasing the price she charges for her products		

3. Illustrate your understanding of the term "trade dispute".
4. Distinguish between "primary picketing" and "secondary picketing".
5. What do the letters WRC stand for? Explain two functions of the WRC.
6. Distinguish between "unfair dismissal" and "constructive dismissal". Give an example of each to illustrate your answer.
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Secret Ballot
2. Shop Steward
3. Picketing
4. Discrimination
5. Conciliation

Column 2: Explanations
(a) Union representative in a business
(b) Treating one person less favourably than another
(c) Independent person makes a ruling to settle a dispute
(d) Provided by WRC's Industrial Relations Officers
(e) Vote held in private; required before industrial action can occur
(f) Workers protest by walking outside employer's business premises

1	2	3	4	5

8. Illustrate your understanding of the term "discrimination".
9. Which employer–employee law do you think is the most important? Explain your choice.
10. Outline two forms of redress that an employee who has been unfairly dismissed may get.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Finnie Ltd

Katherine Finnie has been a major employer in the mid-west. She has a number of factories in the region, employing almost 400 people. In recent years, Katherine has hired a number of workers from Eastern Europe. Recently, one of these workers, Olga, tried to set up a trade union in the factory. Katherine sacked her immediately to send a lesson to all the others that she would not tolerate unions. Two weeks later, Olga was advised by a friend to contact a solicitor.

Profitability has become an issue for Katherine. The cost of her electricity bills increased 25% in the last year. She spent a lot of money installing new equipment in her factories. She felt let down when her employees asked for a pay rise given all these problems. She knows she pays less than similar factories in Dublin, but she argues the cost of living is lower in the mid-west. Her workers are unconvinced and asked again for a pay rise.

Despite these problems, Katherine considers herself to be a fair employer and prides herself on the fact that she gives every worker with children a Christmas bonus to help them pay for toys and so on. She likes to think that she goes easy on her older workers by not sending them on demanding training courses. "They're for the young ones," she jokes with the older staff members. "Sure, I'd be wasting my money sending you!"

(A) Outline, from the above information, two non-legislative solutions to the pay dispute between Katherine and her employees. **(20 marks)**

(B) Katherine is breaking the provisions of the Employment Equality Act, 1998–2015. Would you agree with this statement? Outline reasons for your answer, with reference to the text of the ABQ. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Evaluate the benefits of trade union membership to a school leaver just about to start work. **(20 marks)**
2. Explain how the main provisions of the Industrial Relations Act, 1990 impact on Irish business. **(25 marks)**
3. Outline how the Workplace Relations Commission helps the relationship between Irish employers and employees. **(20 marks)**
4. Evaluate how the provisions of the Employment Equality Act, 1998–2015 protect employees. **(25 marks)**
5. Discuss the importance of the Labour Court in maintaining good industrial relations in Ireland. **(20 marks)**
6. Outline the importance of ICTU to Irish employees. **(15 marks)**
7. The Unfair Dismissals Act, 1977–2015 sets out the following:
   (i) reasons for fair dismissal;
   (ii) reasons for unfair dismissal;
   (iii) redress for employees who have been unfairly dismissed.
   Explain any two of the above. **(25 marks)**
8. Describe **two** types of official industrial action that employees can legally take. **(10 marks)**

UNIT 2

CHAPTER 4

ENTREPRENEURS

LEARNING OUTCOMES

In this chapter, we will look at:

- The person who sets up a business.
- The pros and cons of setting up a business.
- The personality characteristics successful entrepreneurs tend to have.
- The skills business people need to have to be successful.
- How employees can help business people.

In Chapter 1, we looked at all the various stakeholders in a business. In this chapter, we concentrate on one of them – **entrepreneurs**. We specifically look at the characteristics and skills of successful entrepreneurs.

Entrepreneurship (also known as enterprise) is any attempt to start something new. It involves using your creativity and initiative to identify a need and then taking the steps to satisfy that need.

Entrepreneurship involves taking risks, including financial risks (losing money if it fails) and personal risks (losing face if it fails). But when it is a success, entrepreneurship is rewarded. For example, enterprising business people are rewarded by profit.

Role of the Entrepreneur in a Business

An entrepreneur is a person who spots an **opportunity** (a gap in the market) and takes the **initiative** to set up a business to make money from that opportunity.

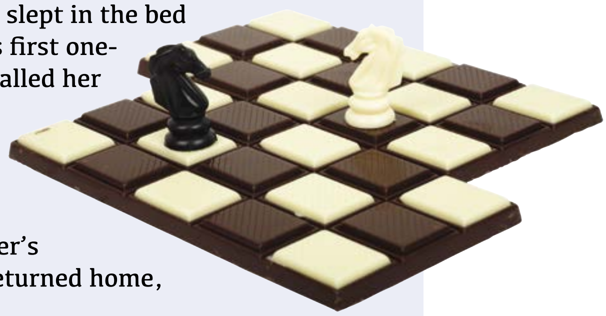
Entrepreneurs take a big risk when setting up the business. They take a financial risk because if the business is a failure, they will lose the money they invested in it. They also take a personal risk because if the business fails, they may lose their self-esteem and self-confidence.

Entrepreneurs are willing to take these risks, however, because they expect the business to be a success and they expect to make a profit.

Examples of Entrepreneurs

His interest in health and fitness led Brian Lee to set up the healthy fast-food company Freshly Chopped.

When her spray tan transferred onto her baby son's skin as he slept in the bed beside her, Marissa Carter was inspired to develop the world's first one-hour tan, a tan that does not need to develop overnight. She called her product Cocoa Brown.



Mary Ann O'Brien spotted a chess set in the hotel she was staying at in South Africa. When she asked to borrow it, the staff told her it was made of chocolate. Fascinated, she spent the rest of the holiday in the hotel kitchen with the hotel owner's daughter, who taught her how to craft chocolate. When she returned home, she turned her new passion into a business, Lily O'Brien's.

Sir James Dyson became so frustrated with his vacuum cleaner constantly losing suction, that he invented a different type of vacuum cleaner using cyclonic separation which he called the Dyson.

Benefits and Risks of Becoming an Entrepreneur

There are many **advantages** to being an entrepreneur:

- An entrepreneur is her **own boss**. She does not have to report to anyone. She makes her own decisions. She has the final say. She has control over her working life and business relationships; she can choose which clients to take on and which employees to hire.
- Entrepreneurs can make **more money**. An employee's income is limited to his salary and possibly a bonus/commission. An entrepreneur keeps all the profits made by his business. The more the business grows, the more money he makes. He reaps the benefits of all his hard work.
- Entrepreneurship gives a person the ability to follow her **dream**. She does not have to find the "perfect job"; she can create it for herself. It gives her the ability and freedom to make a life and career that match who she is and what she wants to be.

Dame Anita Roddick set up The Body Shop due to her ethical and environmental beliefs.

- An entrepreneur enjoys **personal fulfilment**. Starting a business from scratch and watching it grow and succeed gives him a sense of achievement. He gets a great sense of satisfaction from overcoming challenges and obstacles in business.

However, entrepreneurship also comes with **risks**:

- It is difficult and **stressful** to run a business. The entrepreneur has a lot of work to do and a lot of important decisions to make. She may not be able to take time off when she needs it as there may be no one to take over for her.

- It is difficult for an entrepreneur to **raise** all the **capital** needed to set up and run the business. Entrepreneurs may find it difficult to get loans from banks or equity from investors as a lot of new businesses go bankrupt.
- The entrepreneur will no longer receive his monthly pay cheque from his job. He might make little or **no income** in the first few months or even years of his business. This will make it difficult for him to make ends meet financially.

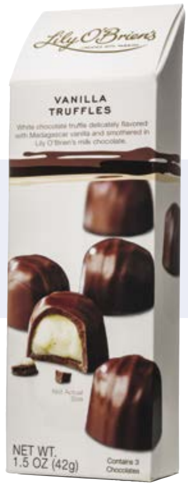
- Entrepreneurs have to **compete** with existing businesses, which may enjoy huge economies of scale (the bigger a business becomes, the lower the cost of making each of its products becomes) and therefore be able to sell their products much cheaper than her.
- The business may **not succeed**. In this case, the entrepreneur will lose all the money he invested in the business. It may also prove a serious blow to his self-esteem and self-confidence as he may feel a failure.

Characteristics of Entrepreneurs

Enterprising people tend to have the following personality traits:

1. Proactive

Entrepreneurs do not sit around waiting for things to happen. They make things happen. When they get an idea, they take action to get that idea up and running. They take effective steps to achieve their goals.



When Mary Ann O'Brien first set up Lily O'Brien's Chocolates, she approached Superquinn (now SuperValu) with her idea and persuaded them to stock her chocolates. As she says, "I was a great woman for knocking on doors with a briefcase and prototypes."

2. Independent

Entrepreneurs like to be in charge. They like working for themselves. They do not like being told what to do. They like to be the ones giving the orders, not taking them.

This quote from Brian Lee, founder of Freshly Chopped, shows that he started working independently from an early age: "I always wanted to be an entrepreneur. When I was 11, I set up a gardening company. I printed off flyers, delivered them around the neighbourhood and got to work."

3. Confident

Entrepreneurs believe in themselves and their idea. They do not allow themselves to be put off by what other people think or say. When they suffer setbacks, they do not give up. They know their business will succeed eventually and they keep at it.

It took Sir James Dyson 15 years and all his savings to develop a vacuum cleaner that worked. He developed 5,126 prototypes that failed, before he got one he was happy with.

4. Have a Need for Achievement

Entrepreneurs have a burning desire to be successful. They want to make something of their lives and be "somebody". They are ambitious and want to get on in life.

Brian Lee has big plans for his business. He said recently "Our ultimate dream is to be as big as McDonald's, with a Freshly Chopped on every street corner across the globe".

5. Risk Taker

Entrepreneurs are not afraid of taking a chance and having a go, even though they might fail. They stand to lose all the money they invested in the business and their self-esteem if it fails. They take sensible risks that have a decent chance of success.

Jeff Bezos quit his high-level job on Wall Street and borrowed $250,000 from his parents to set up Amazon.

6. Ruthless

Entrepreneurs put their business ahead of everything else. It takes priority in all situations. If they have a difficult decision to make, they choose the one that is best for their business. Other considerations (such as friends, employees and so on) do not matter to them.

Henry Ford (the entrepreneur who set up the Ford Motor Company) wanted to make cheap cars in large quantities, even though some investors in his company disagreed with him and said Ford should make expensive luxury cars. Henry then set about getting rid of every single one of these investors from his company.

The music entrepreneur Simon Cowell sacked his friend Cheryl Cole from the TV programme *American X Factor* when audience reaction to her was negative.

7. Creative

Entrepreneurs are inventive and good at coming up with new ideas. They use their imagination and think outside the box to develop original products and services.

Sir James Dyson was frustrated at his vacuum cleaner's poor performance. He thought up the idea of using cyclonic separation to create a vacuum cleaner that would not lose suction as it picked up dirt.

8. Decisive

Entrepreneurs are able to make good decisions firmly and quickly so that they do not miss out on opportunities. They do not hesitate. They are resolute.

When no manufacturer would buy Sir James Dyson's idea from him, he decided to set up his own factory to make his vacuum cleaners.

Enterprise in Other Situations

Enterprise is not just seen in business. It is used in many different situations, including the following:

Enterprise in the home

Parents show enterprise by converting an attic currently used for storage into a study for their daughter so that she will have a place to revise for her Leaving Cert.

Enterprise in the community

Neighbours show enterprise by getting together and organising a committee to clean up their area and entering it in for the Tidy Towns competition.

Enterprise in school

A teacher shows enterprise by organising an after-school drama club and putting on an end-of-term play.

Enterprise in a government department

In 2020/21, the Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

Skills of Entrepreneurs

Skills are particular abilities that you have. Some may be natural to you (innate) and others you may have to learn by practice. Entrepreneurs have the following skills:

1. Human Relations

Entrepreneurs are good with people. They know how to get along with them. They can bring the best out in people and persuade them to do what their business needs.

Entrepreneurs use human relations in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

The parents use human relations skills. They persuade the bank manager to give them the loan needed to pay for the conversion.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The committee members use human relations skills. They persuade as many of their neighbours as possible to volunteer for the clean-up.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher uses human relations skills. He persuades the students to audition for the play.

Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

The government used human relations skills. It persuaded the Irish people that these expensive measures were needed to help eliminate the virus and maintain the economy.

Business start-up

Mary Ann O'Brien used the skill of human relations. She persuaded AIB to give her a loan to set up Lily O'Brien's Chocolates. She convinced supermarkets to stock her products in their stores.

2. Time Management

This is the skill of getting all the essential tasks that need to be done to achieve the business's goals completed in the time available.

Time management involves listing all the tasks that must be done and the time available to do them. If there is insufficient time, one prioritises the most important tasks. This ensures that the manager gets all the important work done on time.

Entrepreneurs use time management in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

The parents use time management. They draw up a schedule to ensure that the attic is completed before their daughter goes into sixth year.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The committee members use time management. They draw up a schedule to ensure that the area is tidied before the Tidy Towns judges call round.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher uses time management. He draws up a schedule to ensure that the play is cast and fully rehearsed before the end of term.

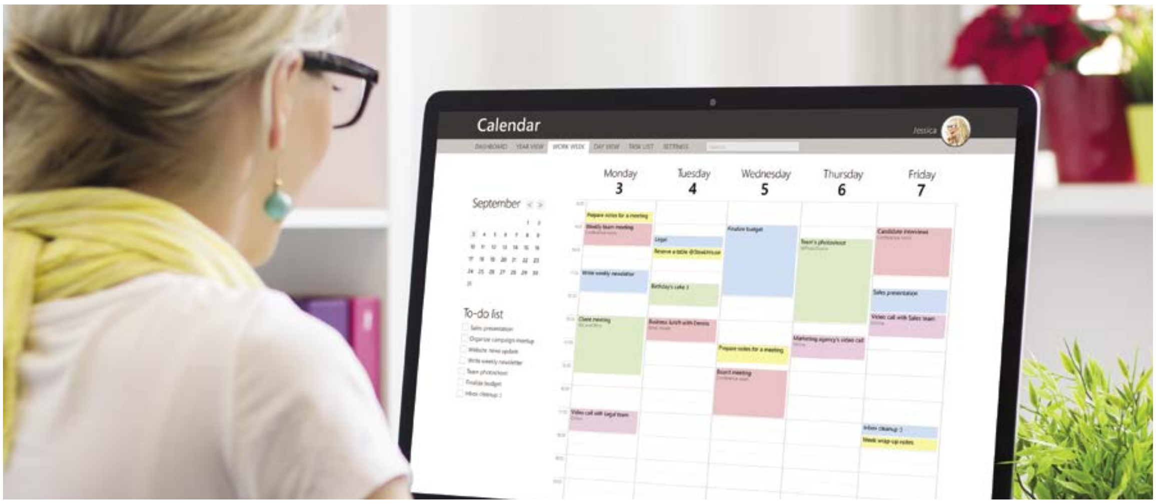
Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

The government used time management. It made sure that all its measures were in place before it introduced mandatory closures of businesses.

Business start-up

Mary O'Brien uses time management to make sure that her orders are ready on time for delivery to her major customers, such as Aer Lingus and British Airways.



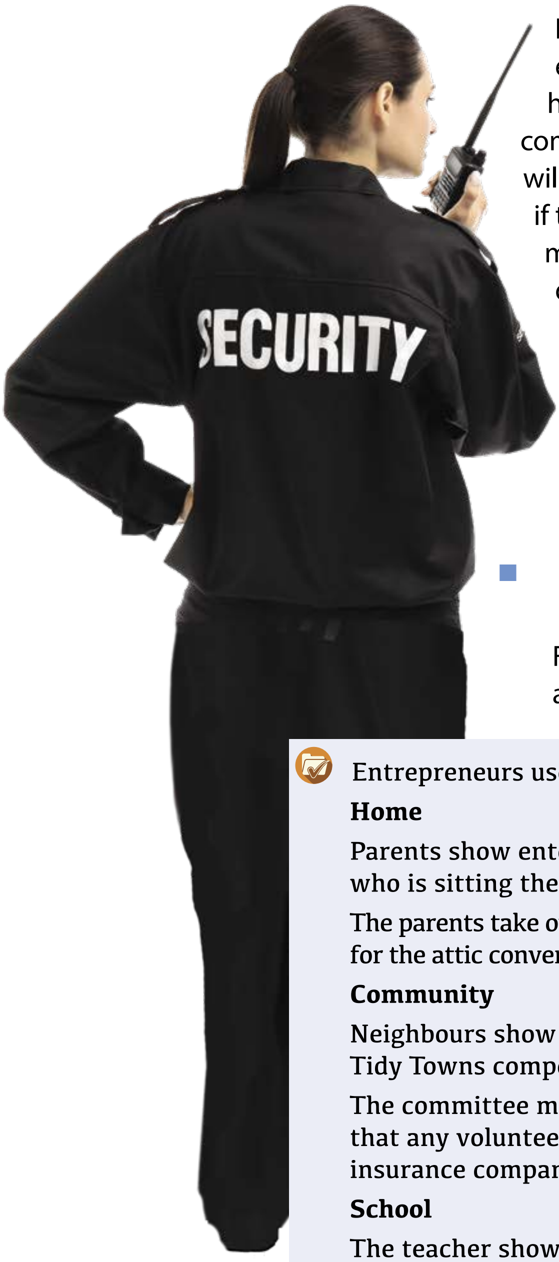
3. Risk Management

Risk management is a **planned approach** to minimising the risks that the business is exposed to. To put it simply, it aims to stop bad things happening to the business. The entrepreneur identifies all the risks facing the business and then takes measures to minimise their negative impact on the business where the cost of taking such measures is far lower than the costs to be incurred if the risks happen.

Examples of risk management techniques include:

- **Insurance**: Entrepreneurs can take out insurance to protect themselves from risk. In return for an annual premium, the insurance company agrees to compensate them for the value of any losses they sustain.

  In this way, the entrepreneur transfers his risks to the insurance company. The business will not lose any money if these risks occur. For example, an entrepreneur can take out motor insurance that will cover the risk of any of her vehicles being damaged or causing damage to others.



- **Proper training**: Entrepreneurs can send their staff on health and safety courses to teach them how to work and act in a manner that causes the fewest accidents.

  For example, workers in a factory can be taught how to lift heavy weights properly, so that they do not injure themselves.

- **Security measures**: Entrepreneurs can employ a number of different methods to minimise the risk of theft from their store.

  For example, they can employ security guards to watch customers and catch those stealing.

Entrepreneurs use risk management in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

The parents take out payment protection insurance (*see Chapter 12*) on the loan to pay for the attic conversion so that, if they lose their jobs, the loan will still be repaid.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The committee members take out public liability insurance (*see Chapter 12*) so that any volunteers who are injured on the clean-up will be compensated by the insurance company.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher takes out public liability insurance (*see Chapter 12*) so that any audience members who are injured at the play will be compensated by the insurance company.

Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

The government asked employees and employers to provide evidence of their eligibility for financial support.

Business start-up

Mary Ann O'Brien took out many different insurance policies to protect Lily O'Brien's Chocolates from risk.

4. Decision-making

Decision-making involves analysing a problem or opportunity and coming up with a list of possible solutions to same.

The advantages and disadvantages of each possible solution must be evaluated and the entrepreneur then chooses the best possible solution – the one with the most advantages and fewest disadvantages.

Entrepreneurs use decision making in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

The parents will research the various builders available and choose the best one they can find.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The committee will decide on who does what job and the best time to carry out the clean-up.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher will choose the most suitable student for each part in the play.

Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

The government weighed up all the different options to help employees during the pandemic and decided to pay them an amount based on their previous earnings, rather than a fixed amount for all.

Business start-up

Sir James Dyson weighed up the advantages and disadvantages of various locations for his factory. In the end, he decided to relocate his factory from England to Malaysia as this would save his business a lot of money.

5. Reality Perception

Entrepreneurs see situations as they really are and not as they might like them to be. Entrepreneurs realise when things are going wrong and do not fool themselves into thinking otherwise.

Entrepreneurs use reality perception in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

The parents use reality perception when they see that the builder is not doing a good job and confront him about it immediately.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The committee members use reality perception when they realise that not enough neighbours are volunteering for the clean-up. They then go on a massive recruitment drive to get more locals involved.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher uses reality perception when he sees that the lead actor is not working out in the part and replaces him with a better one.

Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

The government knew that hardship would be caused by the closure of businesses that was necessary during the pandemic, so it realised it would have to provide financial support to employees and businesses affected to avoid a collapse of the economy.

Business start-up

When Aer Lingus first approached Mary Ann O'Brien with an order for 6 million mints and 3 million "two chocolate" boxes, she turned them down because she realised her business did not yet have the production capacity to make such an order. She said of this later, "I laughed and said (to Aer Lingus), look lads, I couldn't make that in a year".

6. Flexibility

Entrepreneurs are able to change their methods and approaches to business as situations change. The business environment is constantly changing and therefore things may not go exactly to plan. Successful entrepreneurs are able to adapt to these changes.

Entrepreneurs use flexibility in lots of different situations:

Home

Parents show enterprise by converting the attic into a study for their daughter who is sitting the Leaving Cert.

After one of them loses their job, the parents revise their plans for the attic conversion to make it less expensive.

Community

Neighbours show enterprise by setting up a committee to enter their area in the Tidy Towns competition.

The organiser changes the proposed day of a clean-up to avoid a clash with the All Ireland Final.

School

The teacher shows enterprise by getting Transition Year students to put on an end-of-term play.

The teacher reschedules a rehearsal to avoid a clash with an important school match.

Government department

The Irish government introduced a number of measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic.

As the pandemic lasted much longer than expected, the government changed the amounts of money it paid to employees and business affected.

Business start-up

When Pat McDonagh was denied planning permission to turn his premises into a pool hall in Ballinasloe, he turned it into a fast-food restaurant instead. This was the start of Supermac's.

Intrapreneurs

An intrapreneur is an **employee** working within a business who shows enterprise. He uses his initiative and thinks up a new idea to help the business he works in, without being asked to. He may give his employer an idea that reduces the business's costs and/or increases its sales.

Examples of intrapreneurs include the following:

When some Microsoft workers saw the worldwide success of the Sony PlayStation, they thought of the idea of Microsoft developing a games console. They worked on their idea and this led to Microsoft launching the Xbox.

3M has a policy of allowing employees to spend 15% of their working day developing their own new product ideas. Art Fry, a worker at 3M, heard about a glue invented by a 3M scientist that would only stick temporarily. Most people dismissed it as a waste of time but Art thought about uses for the glue (when looking for a bookmark that would not fall out of his hymn book) and came up with the idea for the Post-it. He told his employer about his idea. Post-its are now one of the most popular office products.

Kellogg's has an initiative called "Snap, Crackle and Save" – an employee suggestion scheme to save costs within the business. One employee suggested the idea that the same thickness of cardboard could be used for packaging in all manufacturing plants in Europe. This saved the company over €250,000 per year.

Advantages of Intrapreneurship

1. **Competitive Advantage**

   A business that encourages employees to improve the way things are done or to create new products can enjoy economic stability. New ideas help the business to adapt to changes in the marketplace and thus remain competitive. This gives the firm a better chance of survival.

2. **Motivation**

   Giving employees the opportunity to be inventive and creative can help to make their jobs more challenging and rewarding. This leads to greater job satisfaction. It makes employees more motivated, and this results in higher productivity.

3. **Increased Sales**

   Employees can use their knowledge and experience to come up with new ideas for new products or to improve existing products within the business. This helps the business to increase its sales.

4. **Lower Costs**

   Workers in the business can spot better ways of doing things. These improved methods can result in lower costs for the business and thus improved profitability.

Encouraging Intrapreneurship

A business can promote intrapreneurship in the following ways:

Freedom to Fail

A lot of enterprise comes from a person learning valuable lessons from her failures. The lessons learned lead to eventual success. Therefore, a business must provide a "freedom to fail" culture – one where there is no penalty for a person who comes forward with a new idea.

Bubble wrap was invented in 1957 by engineers Alfred Fielding and Marc Chavannes. It was initially marketed as a wallpaper; only when that failed was its protective use discovered.

Financial Rewards (see Chapter 9)

The business should provide incentives to employees to compensate them for their good ideas. They can be offered a bonus or profit sharing. These will motivate employees to be intrapreneurs because the more profits the business makes from their good idea, the more they earn.

Teamwork (see Chapter 10)

A team is a group of employees working together to achieve a certain objective. Teams facilitate intrapreneurship as they allow for brainstorming. Each team member brings different expertise and perspectives to the team's discussions. Each person can build on the ideas put forward by others. Therefore, a team can come up with more creative ideas for the business than an individual.

Set up a Formal Structure for Intrapreneurship

The business should give employees enough time away from their day jobs to work on creative ideas, while setting up procedures to make sure those ideas go somewhere.

> Google allows employees to spend 20% of their time on company-related work that is of personal interest. Almost half of Google's products (including Gmail) are said to have come about from this policy.

ENTREPRENEURS	INTRAPRENEURS
Own their own business	Are employees in the business
Take financial and personal risks	Do not take such a high degree of risk

Importance of Enterprise in Business

- Enterprise is an **essential** element in setting up a business. It provides the idea and the drive to set up the business in the first place.
- Enterprise from employees (**intrapreneurs**) can help the business to increase its sales (Xbox example) and/or to reduce its costs (Kellogg's example).
- Enterprise leads to the creation of **wealth**. Entrepreneurs make profits from their business and their employees earn wages from it. They have money to spend. Businesses such as shops, cinemas, hotels, pubs, restaurants, gyms and so on spring up to take advantage of this spending power. Thus, enterprise leads to the creation of more businesses in the economy.
- The **taxes** the government takes from entrepreneurs and employees can be used to provide grants to help more and more people set up their own businesses.

Importance of Enterprise in the Local Community

- Enterprise creates **jobs** and businesses for local people. The wages or profits they receive give them a higher standard of living than they would have if they stayed on social welfare.
- Local people **spend** the money they make from their job or business in their local shops, pubs, restaurants, banks, hotels and so on. This helps these businesses to succeed as well. Thus, enterprise in the community has a spin-off effect.
- It creates a new breed of **entrepreneurs** in the local area. People in the community see their friends and neighbours set up businesses and this gives them the motivation and courage to set up a business themselves. This leads to more entrepreneurs in the community.
- The government receives **taxes** from the new businesses and also has to pay out less on social welfare benefits. This increases the money the government has available to spend on local hospitals, schools, roads and so on.
- **Infrastructure** in the local area improves. Shops open because people now have money to spend. New houses are built to house the workers. Roads are improved to make it easier to do business. It transforms the local economy.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "entrepreneur" and give **two** examples of an entrepreneur.
2. Outline **two** characteristics of successful entrepreneurs.
3. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Proactive
2. Flexibility
3. Risk management
4. Time management
5. Decision-making
6. Ruthless

Column 2: Explanations
(a) Putting your business ahead of everything else
(b) Reducing the chances of bad things happening to the business
(c) Choosing the best option from a list of alternatives
(d) Being adaptable and making changes to business as situations change
(e) The skill of taking action and making things happen
(f) Doing the most important jobs first
(g) Not being afraid to take a chance

1	2	3	4	5	6

4. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	An intrapreneur is a person who sets up her own business.	
B	Enterprise is important to Ireland because it creates jobs.	
C	Risk-taking is a characteristic of entrepreneurs.	
D	Anita Roddick set up The Body Shop.	
E	An entrepreneur is an employee who thinks of an idea to help her boss.	

5. List **five** skills used by entrepreneurs.

EXAM SECTION 2 – LONG QUESTIONS

1. What is meant by the term "entrepreneurship"? **(10 marks)**
2. Set out **two** advantages and **two** risks associated with setting up your own business. **(20 marks)**
3. Describe **four** characteristics of enterprising people. **(20 marks)**
4. Identify and explain **four** skills needed by enterprising people. **(20 marks)**
5. Your friend has just set up a business in your local area.
   Explain **three** advantages of this to your community. **(15 marks)**
6. Explain, using an example, what is meant by the term "intrapreneur". **(10 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "entrepreneur".
2. Complete this sentence: The role of an entrepreneur in a business is to…
3. Distinguish between the enterprising characteristics of "creativity" and "confidence".
4. Identify **two** skills of an entrepreneur and show how they can be used in a school.
5. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Independent
2. Need for achievement
3. Ruthless
4. Risk-taker
5. Proactive

Column 2: Explanations
(a) An entrepreneur takes positive steps to make things happen.
(b) An entrepreneur makes decisions that are best for the business. Business needs take priority over everything.
(c) Entrepreneurs like to be in charge, giving orders, not taking them.
(d) Entrepreneurs like to be successful.
(e) Entrepreneurs take steps to minimise the risks of bad things happening to the business.
(f) Entrepreneurs are not afraid to take a chance.

1	2	3	4	5

6. Illustrate your understanding of the term "intrapreneur".
7. Explain the term "enterprise". Illustrate its impact on the development of a local community.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Kelly Ltd

When Alex Kelly finished his apprenticeship as a carpenter, he was immediately offered a number of full-time jobs in Dublin. Despite protests from friends and family, he turned down all the job offers so he could set up his own business in his local town in the west of Ireland. He rented an empty building in the town and bought all the equipment he needed. Initially, Alex found it tough to run a business, but he persevered and got through the difficulties.

Alex's business proved successful, and he now employs 15 people from the local area. His employees like the way he treats them and they find him very friendly and approachable. He takes them all to lunch on Fridays in a nearby restaurant. Some of his friends from school have followed his lead and have also set up successful businesses in the town.

(A) Outline the enterprise characteristics and skills displayed by Alex. **(20 marks)**

(B) Describe the contribution that Alex's business makes to his local town. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Discuss the benefits and risks of becoming an entrepreneur. **(25 marks)**
2. Describe **four** characteristics of enterprising people. **(20 marks)**
3. Describe **three** skills of an entrepreneur and illustrate their use in a government department or a school. **(20 marks)**
4. Outline the importance of **three** entrepreneurial skills in the home. **(20 marks)**
5. Using examples to illustrate your answer, distinguish between risk taking and risk management. **(20 marks)**
6. Using examples, distinguish between an entrepreneur and an intrapreneur. **(20 marks)**
7. Describe the methods a business can use to encourage intrapreneurship. **(20 marks)**
8. Discuss the importance of intrapreneurship in a business. **(20 marks)**
9. Discuss the importance of enterprise in business. **(20 marks)**
10. Describe the impact of enterprise on the development of a local economy. **(20 marks)**

NOTES

UNIT 3

CHAPTER 5

MANAGERS

LEARNING OUTCOMES

In this chapter, we will look at:

- People who run businesses.
- The personality characteristics successful business managers tend to have.
- The difference between those who set up a business and those who manage it.

In Chapter 4 we looked at entrepreneurs, the people who set up businesses. We now look at the people who run the business – managers. Some entrepreneurs will manage their own business, and some will hire professional managers to do it for them.

Definition of Management

Management is a process that involves working with people and using resources such as money and equipment to ensure that the business **achieves its goals**. The job of a manager is to run the business and to make sure that the business achieves its objectives.

The management team of a business consists of a number of people in charge of running the business. The manager in overall control of the business is called the Managing Director (MD), also known as the Chief Executive Officer (CEO).

Ryanair started business in 1985, flying just one route. The CEO, Michael O'Leary, proceeded to turn the company into one of the world's most successful airlines.

Management is used in a lot of situations, including business:

In the home

Parents must manage the family budget to make sure that there is enough money to pay for back-to-school expenses in September.

In the community

A tidy towns committee must manage the effort to make sure that everything is done to make the town as clean as possible.

In school

The school principal is a manager. She runs the school. This involves employing teachers, organising the timetable and communicating with teachers, students, parents, the Department of Education and so on.

In government departments

The Minister for Finance manages the economy. He must make the best use of the money the country has to benefit all the people of Ireland.

He must manage the country's finances to make sure that Ireland is not spending more than it can afford.

In business

Managers must make sure that employees do their jobs.

Managers also make sure that customers are satisfied.

Managers have to ensure that the business makes a profit.

Characteristics of Managers

Good managers tend to have the following personality traits:

1. Decisive

Good managers can analyse a situation and quickly come up with an effective solution to deal with it. They can quickly and firmly put an end to problems. They are resolute and do not dither or hesitate.

Management in the newly privatised Aer Lingus acted decisively by transferring their London routes from Shannon to Belfast, despite public protests.

2. Initiative

Good managers do not need to be told what to do to. They have the ability to start things. They are inventive and can think up new ideas and find the solutions to problems themselves.

Michael O'Leary thought of many innovative ways for Ryanair to reduce costs (getting rid of airport check in saves the airline €50 million a year) and increase revenue, for example by charging extra for priority boarding.

3. Good with People

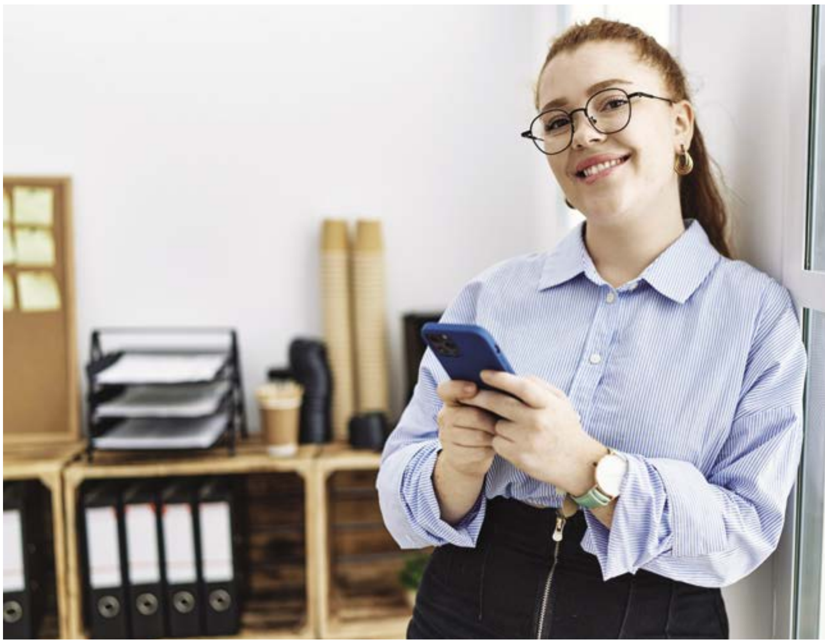
Good managers are able to get along with people. They know how to get them on side and get the best out of them. They can convince them to do what the business needs.

"Having a personality of caring about people is important. You can't be a good (manager) unless you generally like people. That is how you bring out the best in them." Sir Richard Branson, founder of the Virgin Group

4. **Hard Workers**

Good managers put a lot of time and effort into their job. They do not just work from 9 a.m. to 5 p.m. If there is a problem that must be dealt with, they stay behind and work until it is solved.

> Aer Lingus managers stayed up all night in negotiations with Aer Lingus trade unions at the Workplace Relations Commission to settle a trade dispute at the airline.



5. **Flexible**

Good managers can change their methods and approaches to business as the business and situations change. They are **adaptable**.

> Following a threatened pilots' strike, Michael O Leary changed his long-standing policy on trade union recognition and announced that Ryanair would negotiate with unions for the first time in the airline's history.

6. **Charismatic**

Good managers are persuasive and **inspirational**. They are able to arouse enthusiasm and interest in others with their personal magnetism and charm. People find them fascinating and captivating. They inspire loyalty and devotion in their employees. This makes people respect and like them. A charismatic manager finds it easier to get employees to follow her and do what she wants them to do.

> The late Steve Jobs, co-founder of Apple, was a charismatic manager. He had the ability to inspire people to perform at their highest levels. He was a dynamic showman who led public unveilings of new Apple products, something that is now copied by many other technology companies.

Contrast between Enterprise and Management

There are a number of differences between enterprise (which we looked at in Chapter 4) and management:

ENTERPRISE	MANAGEMENT
Enterprise involves coming up with an idea and setting up a business to make money from it.	Management involves running the business for the entrepreneur and using its resources to ensure it achieves its goals.
The entrepreneur takes a big risk (both financial and personal) when setting up the business. She could lose everything she owns if it fails.	The manager does not take the same degree of risk. If the business fails, all he will lose is his job.
The entrepreneur concentrates on the long-term future of the business. She focuses on the "big picture".	The manager concentrates on the day-to-day running of the business. He focuses on the details, such as employee punctuality, productivity and so on.
The entrepreneur has ultimate control over the business. She answers only to herself.	The manager ensures that the entrepreneur's ideas are carried out and answers to her.

For example, the **entrepreneur** Tony Ryan thought up the idea of setting up an airline to rival Aer Lingus, which he called Ryanair.
Tony Ryan hired the **manager** Michael O'Leary to run Ryanair for him.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the role of a manager in a business.
2. Write out what the following letters stand for: MD CEO
3. List **three** characteristics of a manager and outline any **one** of them.
4. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Hard worker	(a) A person who sets up her own business
2. Initiative	(b) A person who can make decisions quickly
3. Charismatic	(c) A person who can think on her feet
4. Flexible	(d) A person with a charm that others warm to
5. Decisive	(e) A person who puts in all the hours needed to get the job done
6. Manager	(f) A person who runs a business for the owner
	(g) A person who can change her methods when necessary

1	2	3	4	5	6

5. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A school principal is an example of a manager.	
B	The job of management is to make sure that a business achieves its goals.	
C	The manager in overall charge of a business is called the CEO.	
D	Charisma is the ability to think up solutions to problems quickly.	
E	A good manager sticks with the methods that have worked in the past and does not change them.	

EXAM SECTION 2 – LONG QUESTION

Describe **three** characteristics of a manager. **(15 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Define “management”.
2. Illustrate your understanding of the term CEO.
3. The following table shows three actions of a manager and three typical characteristics of successful managers. For each action, tick (✓) the characteristic that is *most* likely to match that action.

	Decisive	Charismatic	Flexible
Manager sacks an employee whom she finds stealing.			
Manager changes the company bonus scheme to motivate workers.			
Manager hires a candidate immediately after her interview.			

4. Explain the role of a manager in a business.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Hyland Ltd

Matthew Hyland worked as a barman in a number of Dublin pubs for many years. During those years, he saved hard. His savings and a very large bank loan helped him to buy his own pub in his native Wexford.

Thanks to Matthew’s hard work and great ideas, the pub has become one of the most successful in the county. In fact, it became so busy, that he hired a manager, Orla Furlong, to run the pub for him. He prefers to concentrate on new ideas. Already, he is thinking of opening an entertainment venue in Wexford and hopes to attract big names from the world of show business.

Orla runs the pub and is responsible for everything from checking deliveries, which can arrive at 7 a.m., to hiring and firing chefs, bar staff and bus drivers. It can be stressful, but Orla always has a smile and a joke for the employees and they really like her. However, she did not hesitate in sacking an employee when she caught him red-handed stealing money from the till. When the ESB warned of power cuts in the area, many businesses chose to close down, but Orla bought candles and handed out flyers inviting people to come to a “candlelight music session”. It proved to be one of the busiest nights the pub ever had. Because of her success, Orla has been offered a job managing a much bigger bar in Waterford.

Outline the management characteristics shown by Orla Furlong in the above situation. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. “Management is not just seen in business.” Do you agree with this statement? Support your answer with **two** reasons and examples. **(20 marks)**
2. Distinguish between “entrepreneurs” and “managers”. **(20 marks)**
3. Describe **four** characteristics of successful managers. **(20 marks)**

UNIT 3

CHAPTER 6 MANAGEMENT SKILLS OF LEADING AND MOTIVATING

LEARNING OUTCOMES

In this chapter, we will look at:

- Two of the skills that business managers need to have to run a successful business.
- How managers can lead their employees.
- How managers can motivate their employees.

In Chapter 5, we saw that the job of a manager is to make sure that the business is a success and achieves its objectives. In order to do this, every manager has to be able to lead, motivate and communicate. These are called the management skills. In this chapter, we look at the management skills of leading and motivating. In Chapter 7, we will look at the management skill of communicating.

Management Skill of Leading

Leading (or leadership) is the ability to direct people and positively influence them so that they follow and obey you and, as a result, contribute voluntarily to achieving the business's goals. A manager can lead people using one of the following leadership styles:

1. Autocratic Leadership

The manager **makes all the decisions** without any employee input. He does not ask the employees for their suggestions or advice. The manager gives employees orders and expects them to obey him without question. He keeps a close eye on employees to make sure they are doing what they are told. The manager uses his position of authority to get employees to do what he wants ("I'm the boss here; you do what you're told").

Evaluation

This style of leading usually does not produce good results for the manager and is best avoided. Workers resent having decisions forced upon them, without any say in those decisions. Some will resign and this may mean the business loses excellent workers. Those who stay will be unhappy in their job and unwilling to use their initiative or offer any ideas to help the business.

Autocratic leadership may be appropriate if the employees are new and inexperienced. In this case, a manager will use an autocratic style to ensure they receive proper instructions and know exactly what to do.

A manager in the bakery in Tesco is autocratic with new employees, so that they know what to do and do not burn the bread or injure themselves.

It may also be appropriate in a crisis situation, where an urgent decision needs to be made quickly, such as the business facing imminent bankruptcy or a product recall. In such situations, an autocratic leader will take charge, determine the best way to move forward, allocate tasks to employees and set a deadline for their completion, so that the business is saved. Some projects require strong leadership in order to get things accomplished quickly and efficiently.

2. **Democratic Leadership**

The manager **involves** employees when making decisions. She encourages them to discuss the issues with her and takes their views into account before she makes the final decision. The manager gets employees to go along with her by reasoning with them and **explaining** things to them. She will often delegate authority to her employees.

Evaluation

This style of leading is more appropriate in business. This is because employees like to be asked for their opinions and given the opportunity to make useful contributions to the business. They are more likely to show intrapreneurship and offer ideas to the manager, to help increase sales and/or reduce the business's costs.

However, consulting with employees in this way can mean that decision-making in the business takes longer. Therefore, it should not be used when quick decisions, that would not change as a result of employees' input, need to be made.

3. **Laissez-faire Leadership**

The manager has very little involvement in decision-making, mostly leaving everything up to the employees. He gives

the employee a goal to achieve within a certain time limit and leaves it up to the employee as to how she will work to accomplish that goal. The employees are free to make their own decisions about how they do their job. The manager gets employees to go along with him by reasoning with them and **explaining** things to them. He will often **delegate** authority to his employees.

Evaluation

This style of leading is appropriate only when the manager has highly capable and trustworthy employees. It is used in businesses that rely heavily on employee creativity for success such as firms that engage in research and development as it provides maximum scope for innovation and flexibility. In Pfizer, for example, the managers use a laissez-faire style with the scientists so they are free to invent new tablets and cures.

However, laissez-faire leadership does not work in all situations. Some employees find it difficult to cope with no one watching over them. As a result, they might not get the work done on time or might rush to get it finished before a deadline and therefore make mistakes.

Delegation

An important part of being a leader is to delegate some of *your* work to your employees. Delegation is when a manager assigns authority to an employee to carry out a specific management task of his, on his behalf. In business, a shop manager might ask a trusted employee to bring the day's takings to the bank for him. The Human Resources Manager might get her assistant to go through all the application forms that have been received for a job vacancy, to screen out all the unsuitable applicants and to present a list of the top five candidates for the manager to interview.

For delegation to actually work in a business, the following are required:

- Competent, responsible and trustworthy employees who can cope with the added responsibility of doing the delegated jobs.
- A good control system that immediately highlights any errors made by the employees who have been delegated to. This will minimise any bad effects on the business.
- A manager who is not afraid to delegate and is willing to try it because he knows all the benefits of delegation for himself, the business and the employees.

Advantages of Delegation

1. By delegating some of his less important management work to his employees, a manager has more **energy** to devote to the most important issues in the business. The business makes more efficient use of the manager's initiative and problem-solving skills as he can give his full attention to solving the business's critical problems.
2. Delegating management work to employees is a good way to **train** them on-the-job to become managers themselves in the future. They learn how to be a manager from carrying out the various management tasks that are delegated to them. This ensures that the business has a steady supply of managers for the future.
3. When a manager delegates to an employee, she is showing them that she respects them and has faith in them. They feel **valued** when the manager picks them to do a job for her. Therefore, delegation makes employees happier because they are more involved in the business. This makes them more likely to stay.
4. The manager can allocate various management functions to various employees. Because many people are sharing the workload, the work is done more quickly. Thus, delegation **saves** the business time and money.

Importance of Effective Leadership

1. **Improved Efficiency**
   A good leader gives clear instructions and directions to his employees. Employees understand and do exactly what is expected of them. Time and other resources are not wasted doing the wrong thing.

2. **Improved Coordination**
   An effective leader inspires employees to share her vision for the future of the business. Employees believe in the vision and all pull together in the same direction to achieve it. They all work as one for the success of the business.

3. **Employee Retention**
   A good leader delegates tasks to employees. Employees like being trusted and involved in the business and are thus more likely to continue working for the business. This cuts down on the business's recruitment and selection costs. It also helps to attract the best employees.

4. **Change**
   When a business has to make changes, a democratic leader will explain the changes to the employees and ask for their opinions and ideas on how best to implement the changes. Giving employees a say in the change means that they are more likely to accept it as they feel it is not being imposed on them. It gives them a sense of ownership over the change.

Management Skill of Motivating

Motivating is the process through which a manager encourages employees to work harder and commit themselves to achieving the goals of the business. Motivated employees care about the success of the business and want to perform to the best of their abilities.

> Microsoft motivates its employees by offering them bonuses based on their performance at work. The better they work, the bigger the bonus they will receive. Those who show extra initiative receive cash and shares in the company.

To help managers, there are two main theories on how to motivate employees:

- Theory X and Theory Y (by Douglas McGregor)
- Hierarchy of Needs (by Abraham Maslow)

Mc Gregor – Theory X and Y

Douglas McGregor's theory is that a manager's attitude has an impact on employee motivation. According to him, there are two types of manager – Theory X managers and Theory Y managers. Each type of manager has certain attitudes about employees and these attitudes determine how the manager treats his employees.

Theory X Manager

- A Theory X manager believes that his employees do not like to work at all, that they are **lazy**, that they have no ambition and that they prefer to be told what to do. He feels that his workers are out for themselves and are only interested in money. In other words, he takes a pessimistic view of his employees.
- A Theory X manager motivates in two ways. The first is the hard approach, where he keeps a **close eye** on his workers to make sure that they do their jobs and punishes them if they fail.

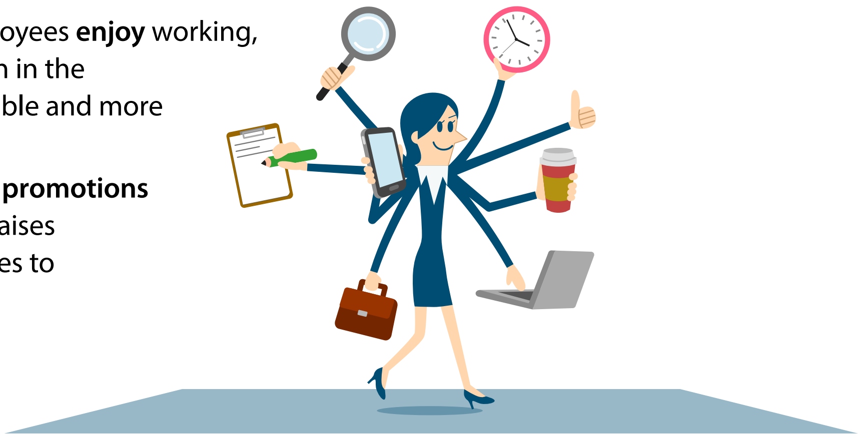
Some companies use employee monitoring software to track what their employees are doing on their computers. Tracking data may include typing speed, mistakes and applications used.

The second is the soft approach, where he promises them **more money** to get them to work harder.

- McGregor said that employees **resent** being treated this way. They become uncooperative and try to do as little work as possible. They try to get as much money from the manager as possible for the least amount of work.
- He did **not recommend** managers to use Theory X in their business.

Theory Y Manager

- A Theory Y manager believes that his employees **enjoy** working, that they have ambition and want to get on in the business and that they want more responsible and more challenging jobs.
- A Theory Y manager motivates by offering **promotions** and titles to employees who do well. He praises employees who do good work. He delegates to employees who are good workers.
- McGregor said that a Theory Y approach to motivation results in **happy**, cooperative employees who will work hard.
- He **recommends** that managers use Theory Y in their business.



Evaluation of McGregor's Theory X and Y

In his Theory X and Y approach, McGregor has a good idea about motivation, because it makes sense that employees will work harder and make a better contribution to the business if they are treated as responsible and valuable employees. However, the theory is simplistic in that it assumes managers are either Theory X or Theory Y.

Maslow's Hierarchy of Needs

Abraham Maslow stated that people's needs are what drive and influence them to do anything. For example, when you are hungry, you are driven to find food. If a manager can learn what an employee needs, she can motivate him to work harder by offering him something that will satisfy his needs. For example, a worker on minimum wage may be motivated to work harder by the promise of a pay rise.

Maslow stated that people have five different types of need, which can be arranged in a hierarchy starting with the most basic human needs and ending with the most sophisticated.

NEEDS	HOW A MANAGER CAN SATISFY THEM
Self-actualisation Needs This is the need for personal growth and fulfilment, to achieve all that you are capable of, to be the best that you can be.	The manager can offer the employee more challenging work and shares in the business so that she becomes a part owner of the firm.
Esteem Needs This is the need to feel good about yourself (self-respect) and to gain the respect and admiration of others. People need to sense that they are valued by others and feel that they are making a contribution to the world.	The manager can praise the worker and recognise her hard work by giving her awards and promotions.
Social Needs This is the need for friendship, affection, belonging, acceptance and love. In order to avoid problems such as loneliness, depression and anxiety, it is important for people to feel loved and accepted by other people.	The manager can satisfy this need by putting employees working together in teams. He can also hold staff parties and staff bonding days so that employees get to know one another outside of work.
Safety Needs This is the need to feel safe and secure. It includes financial security, the need to be in good health and safety from accidents and injury.	The manager can offer the employee a long-term contract of employment, so that she knows her job is safe for a certain period. The manager can pay the employee's health insurance so that she knows that her medical bills will be covered in the event of illness.
Physiological Needs These are the most essential human needs, the things you need to live – water, food, shelter, air and so on.	The manger can satisfy this need with higher pay so that employees can buy food. He can also have a staff canteen for workers to use during the day.

- According to Maslow, everyone starts at the bottom of the hierarchy with the physiological needs. That need is the most important to a person until it is satisfied.

A person who is literally starving may steal food. He is not concerned with what his friends might think of him (esteem needs) because he is stuck on physiological needs.

- Once a need is satisfied, it no longer motivates a person. Satisfying the next need up is what now motivates her. Employees are always motivated to move to the next level. People satisfy their needs in the order or sequence Maslow presented.
- Therefore, it is important for a manager to know which need is dominating each employee. They can be motivated to work harder if the manager can satisfy that need.

Evaluation of Maslow's Hierarchy of Needs

Maslow's Hierarchy of Needs gives managers a good insight into what drives and influences workers to work hard. It shows a manager that different things motivate people at different stages in their carer and that money is not the only thing that motivates. It tells managers that once they know what level an employee is on, they can find an appropriate incentive that will encourage her to work as hard as she can.

However, it is not without its faults. Maslow's theory states that lower-level needs must be met in order to meet needs in the higher levels. However, this is not always the case. It is possible for people who suffer from poverty and hunger to still feel love and belonging. Therefore, higher-level needs can be met in some cases even if lower-level needs are neglected.

Also, in real life, employees do not just satisfy one need at a time. They are capable of satisfying a number of needs at the same time. For example, lunch with work colleagues satisfies both physiological and social needs simultaneously.

Example of Maslow's Theory in Operation in Kellogg's

Within Kellogg's every employee is motivated to work through each of these levels. As they do so, this provides positive effects for each employee and the business.

Self-actualisation needs
Kellogg's provides employees with the opportunity to take on challenging and stimulating responsibilities. For example, the business provides the opportunity for individuals to take ownership of projects. This enables them to develop and improve.

Esteem needs
Kellogg's positively recognises and rewards staff achievements. It promotes employees who work hard.

Social needs
Kellogg's operates weekly group "huddles". These provide informal opportunities for employees to receive and request information on any part of the business, including sales data and company products.

Safety needs
Kellogg's is committed to providing a safe and healthy work environment to prevent accidents.

Physiological needs
Kellogg's offers competitive salaries. This gives people the means to acquire the basic needs for living.

Importance of Motivation

Motivating is an essential skill for a manager. It helps a manager achieve the business's goals by encouraging every employee to work to the best of their ability. It provides the following benefits to the business:

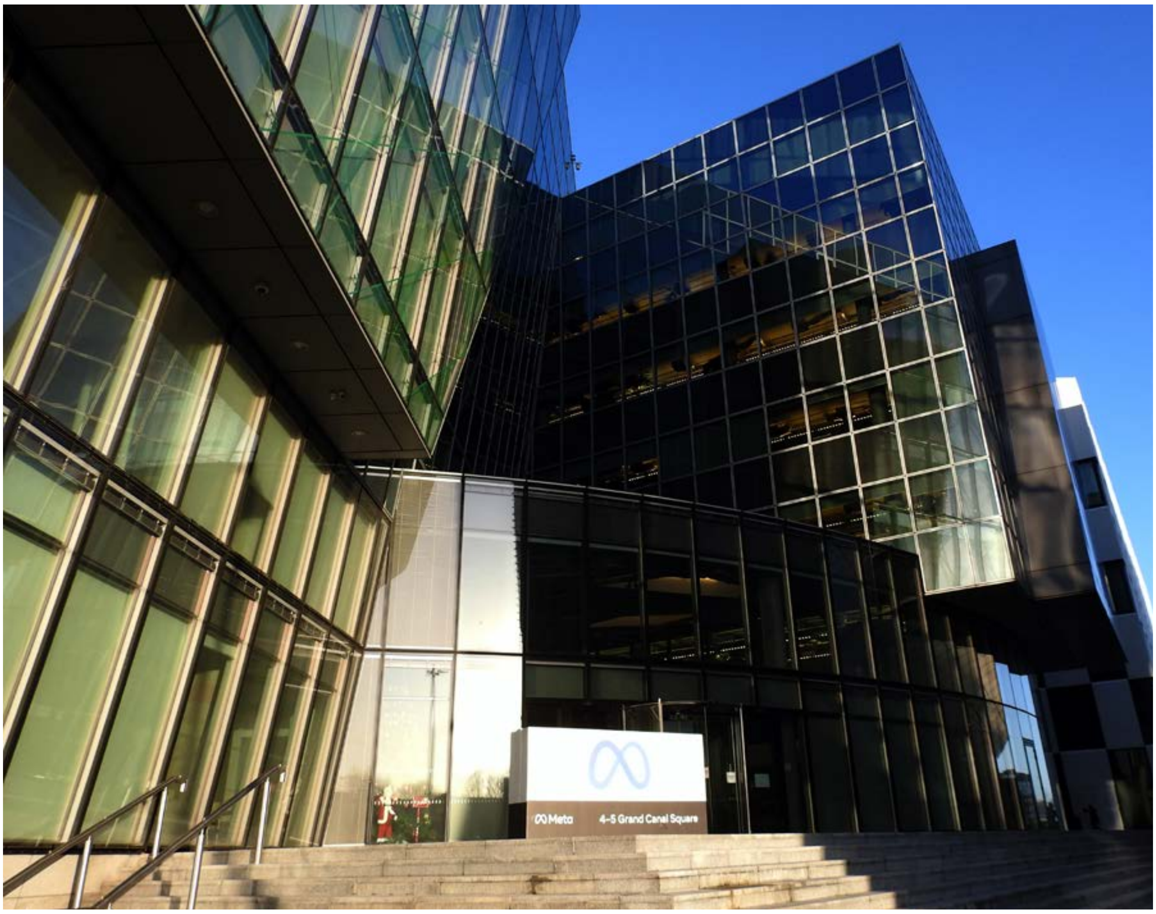
- Motivation leads to **greater productivity** as it influences employees to work as hard as they can. It encourages them to do their very best work. It drives them to make the best quality products and give customers the best service. This in turn helps the business to increase sales and profits.
- Motivation leads to **greater intrapreneurship**. Highly motivated employees are more likely to go "beyond the call of duty" and offer their managers useful suggestions and ideas to help the business increase sales and/or reduce costs. They will go out of their way to think up solutions to the business's problems.

> Microsoft got the idea for Xbox from motivated employees who wanted to see the company beat the Sony PlayStation.

- Motivation helps a business to **recruit and retain excellent employees**. A business that motivates its employees well will find it easy to attract and keep the very best staff to work for it as they know that they will be happy there because their job will give them what they want and need. This helps the business to minimise its costs of recruitment.

> Meta and Microsoft find it very easy to hire Ireland's top computer graduates because they are attracted by the excellent perks these companies offer them.

- Motivation **improves industrial relations** in a business. Motivated employees have a good relationship with their managers and are therefore more likely to talk out any difficulties they may have in a spirit of cooperation and conciliation, rather than going on strike.



Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List the **three** management skills.
2. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	An autocratic leader consults her staff before making a decision.	
B	Autocratic leading usually leads to unhappy workers.	
C	A democratic leader used reasoned arguments to get his own way.	
D	A democratic leader gives employees a task to do and leaves it entirely up to them how they go about it.	
E	A laissez-faire leader tells employees what to do and expects them to do it without question.	

3. Explain what is meant by "delegation" and give one example of delegation in business.
4. Outline two advantages of delegation for a business manager.
5. Fill in the blanks in Maslow's Hierarchy of Needs.

6. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Motivation
2. Theory X
3. Theory Y
4. Physiological
5. Esteem
6. Self-actualisation

Column 2: Explanations
(a) Human need to reach full potential
(b) Manager assumes employees like work and are ambitious
(c) Human need for self-respect and respect from others
(d) Manager assumes employees are lazy and out for themselves
(e) Skill of a manager to provide incentives for workers so that they work hard
(f) Basic human needs, such as food, water and shelter
(g) Human need for friendship and belonging

1	2	3	4	5	6

7. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A theory X manager motivates her workers with praise and recognition.	
B	A theory X manager's approach will result in uncooperative employees.	
C	A theory Y manager motivates his employees with promotions.	
D	Maslow's theory is called Theory X and Theory Y.	
E	It is recommended to use Theory X in most business situations.	

8. Distinguish between "esteem needs" and "social needs".

EXAM SECTION 2 – LONG QUESTIONS

1. Name **three** styles of leading and explain any **two** of them. **(25 marks)**
2. What is meant by the term "delegation"? **(10 marks)**
3. Describe **three** benefits for a business of delegation. **(15 marks)**
4. Distinguish between "leading" and "motivating". **(10 marks)**
5. Describe Theory X and Theory Y. **(15 marks)**
6. Describe Maslow's Hierarchy of Needs. **(15 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "autocratic" and "democratic" leaders.
2. Explain the concept of "laissez-faire leadership".
3. The following table shows three leadership styles and four actions of leaders. For each action, tick (✓) the type of leadership style that is *most likely* to match that action.

	Autocratic	Democratic	Laissez-Faire
Manager issues orders and expects them to be obeyed without question.			
Manager refuses to delegate to employees.			
Manager refuses to consult with employees.			
Manager allows employees to complete task as they see fit.			

4. Which leadership style do you think is the most appropriate to business? Explain your choice.
5. Illustrate your understanding of the term "delegation".
6. Outline three problems for a manager who does not delegate.
7. Complete this sentence: Delegation helps business because it…
8. Complete this sentence: Motivating helps a business to…
9. Distinguish between a Theory X manager and a Theory Y manager.
10. Illustrate the difference between "safety needs" and "social needs".

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Purple Ltd

Patsy O'Connor set up her own restaurant business four years after graduating from catering college. The restaurant initially proved a big success and was busy every night thanks to Patsy's innovative menu and policy of only buying the freshest ingredients. Recently, however, Patsy has begun to notice problems. A new restaurant opened nearby and is attracting many of her regular customers. She cannot think why they would leave her.

Patsy has always worked hard. She regularly puts in twelve-hour days at the restaurant. This leaves her exhausted and with little energy for anything else in her life. She has found herself snapping at employees, although she has always been tough on them. To maintain standards in the restaurant, she insists that all employees do exactly what she says and run any problems by her first. To keep employees on their toes, she never praises them but severely reprimands those who make mistakes.

A number of the employees have left the business in recent times, unhappy with the conditions. Patsy cannot understand this as she pays well above the going rate. A number of long-serving employees are complaining that there is no career path for them. Patsy dismisses their complaints, telling them that they are lucky to have such well-paid jobs and, if they do not like it, they could go elsewhere.

(A) Describe Patsy's leadership style. Support your answer with reference to the above text. **(20 marks)**

(B) Evaluate how the business might do better if Patsy improves her skills of leading and motivating. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Explain the three leadership styles and set out **one** example of a situation when each style is appropriate in business. **(30 marks)**
2. Discuss the importance of a manager using the correct leadership style in a business. **(30 marks)**
3. Evaluate the importance of delegation to the success of a business. **(25 marks)**
4. Contrast a Theory X manager with a Theory Y manager. **(20 marks)**

5. Discuss the implications for a business of a manager adopting a Theory Y approach to motivating. **(20 marks)**
6. Describe the implications for a business of a manager adopting a Theory X approach to motivating. **(20 marks)**
7. Explain, using examples, the five categories of needs identified by Maslow. **(15 marks)**
8. Describe how a manger can satisfy each one of the five needs identified by Maslow in his "Hierarchy of Needs". **(25 marks)**
9. "Maslow's theory on motivation is still in use today, more than 80 years after he outlined it." Describe and evaluate Maslow's theory. **(25 marks)**

NOTES

UNIT 3

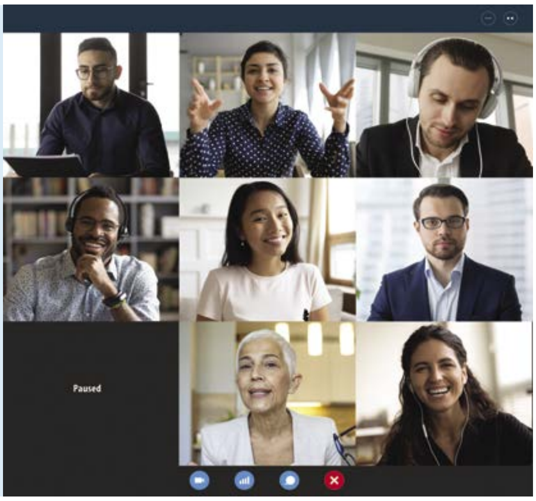
CHAPTER 7

MANAGEMENT SKILL OF COMMUNICATING

LEARNING OUTCOMES

In this chapter, we will look at:

- The management skill of communicating.
- The main ways of communicating – written, oral and visual.
- What stops a manager from being a good communicator.
- How to be a better communicator.
- Modern technology used in business communications.
- An important EU law that deals with data protection in connection with communications.



In Chapter 6, we said that there are three things that a manager must be able to do in order to make sure the business succeeds. She must be able to lead, motivate and communicate. These are called the **management skills**. In this chapter, we look at the management skill of communicating.

Definition of Communicating

Communication involves **transferring information** from one person to another. It involves the sender turning an idea she has into a message by using words and/or pictures. She then sends that message through a medium to the receiver, who must interpret the message and act upon it.

In business, there are two main types of communications: internal communications and external communications.

Internal Communications

This is communication between two or more people who are all inside the **same** business.

Methods of internal communication include:

- Meeting
- Memo
- Internal phone
- Suggestion box
- Face-to-face conversations
- Email
- Intercom
- Notice board
- Pager
- Internal newsletter

Internal communication in a business can be:

Upward	Upward communication is when a message is transferred from a lower to a higher level in the organisation. Employees give information to, ask questions of and make suggestions to management.
Downward	Downward communication is when a message is transferred from a higher to a lower level in the organisation. Managers give orders, advice and training to employees.
Horizontal	Horizontal communication is when a message is transferred between people at the same level in the business. The marketing director and the finance director meet to discuss next year's advertising budget.

External Communications

This is communication between the business and other people **outside** the business. Examples of external communication include:

Banks	The entrepreneur meets the bank manager to apply for a bank loan.
Suppliers	The production manager sends an order to the supplier for more materials.
Customers	The marketing manager writes back to a customer in response to her complaint.
Government	The entrepreneur sends in her annual tax return to Revenue.
Public Relations	The Public Relations officer organises a press conference to announce to the media that the business is opening a new factory that will create new jobs.

Methods of external communication in business include:

- Telephone
- Email
- Letter
- Internet
- Press conference
- Videoconferencing

Three Forms of Communication

Communication involves transferring information. There are three ways that a manager can transfer information to the receiver, including writing it down for him, saying it to him and drawing him a picture to explain it. Each of these media is now discussed in turn:

	Written Communications	Oral Communications	Visual Communications
	The written word	**The spoken word**	**Pictures, symbols diagrams and maps**
Examples	■ Memo ■ Letter ■ Report ■ Email ■ Business document, such as invoices, orders, quotations and so on	■ Meeting ■ Face-to-face conversation ■ Videoconferencing ■ Intercom ■ Telephone ■ Conference	■ Bar chart ■ Pie chart ■ Pictogram ■ Line graph ■ Breakeven chart
Advantages	**1.** It provides a permanent record and therefore **proof** of the communication. Therefore, it is especially useful for business contracts. **2.** The message can be read and read again to **understand** any difficult ideas. **3.** Technology such as email makes written communication very **fast**.	**1.** It is a **quick** form of communication because you can get an instant response from the receiver. **2.** Any problems in understanding can be easily **explained** there and then. **3.** It is **personal** and therefore good for reaching agreement. **4.** It allows **emotion** and body language to be communicated.	**1.** It is useful for analysing **statistics**. **2.** It makes communication much **clearer** because pictures are generally easier to understand and easier to remember.
Disadvantages	**1.** Feedback (getting an answer) is **slower** than with oral communications. **2.** There is a risk of information **overload**. Too much written information can make it difficult for the receiver to understand the message.	**1.** There is no record of the message, which means there is **no proof** it took place. **2.** Because oral is instant, the message may not be prepared in advance and may come out wrong. **3.** The receiver may not listen to the message and **miss** it.	Visual communication is usually **not sufficient** on its own. To be fully understood, it nearly always has to be accompanied by either of the other two methods.

Written Communications

We will now look at a number of different types of written communication:

Memo

A memo (short for memorandum) is a written document used for internal communication (from manager to employee, for example). It is a brief note from one person to another in the business. A memorandum is laid out as follows:

MEMORANDUM

To: Date:

From: Subject:

Signed

Name in Capitals Title in Capitals

Here is an example to illustrate:

Draft a memorandum from the Human Resources Manager to all staff informing them that the newly agreed 3% pay rise for all staff will come into effect on 1st August.

ANSWER

MEMORANDUM

To: All Staff Date: 1st June, 2026

From: Human Resources Manager Subject: Pay Rise

The newly agreed 3% pay rise for all staff will come into effect on 1st August.

Signed Paula Doyle

PAULA DOYLE HUMAN RESOURCES MANAGER

Name in Capitals Title in Capitals

Business Letter

When business people write to each other, they lay out the letter in a formal and professional way as follows:

SENDER'S BUSINESS NAME

Sender's Address

Your Reference: ______________________

Our Reference: ______________________

Write the date you are writing the letter in the following format:

Date: 17th June 202X

Name,
Title and
Address of receiver

Re:

Dear	Sir/Madam,	[if you do not know their name]
	Mr / Ms "X",	[if you do]

Paragraph 1
I am writing to you to…

Paragraph 2
Main body of the letter. Give all the facts.

Paragraph 3
Conclusions. State what you would like to happen now.

Yours faithfully/sincerely,

Signature ______________________

____
Name in Capitals

____
Title in Capitals

Here is an example to illustrate:

Using a fictitious name and address draft a letter to the Human Resources manager of a business, setting out four characteristics of managers to be looked for when interviewing candidates for management positions.

Answer

MMC

Meskell Management Consultants Ltd

88 Spencer Street • Mullingar • Co. Westmeath

Your Reference: MMC/2026

Our Reference: HRMF/2026

Date: 17th June 2026

Mr Lee Nolan
Human Resources Manager
Finnie Ltd
Adare
Co. Limerick

RE: Characteristics of Managers

Dear Mr Nolan,

I am writing to you to set out four characteristics of a manager to be looked for when interviewing candidates for management positions.

Good managers should be decisive. They can analyse a situation and quickly come up with an effective solution to deal with it. They can quickly and firmly put an end to problems. They are resolute and do not dither or hesitate.

Good managers must use their initiative. They do not need to be told what to do to. They have the ability to start things. They are inventive and can think up new ideas and the solutions to problems themselves.

Good managers are hard workers. They put a lot of time and effort into their job. They do not just work from 9 a.m. to 5 p.m. If there is a problem that must be dealt with, they stay behind and work until it is solved.

Good managers have charisma. They are persuasive and inspirational. They can arouse enthusiasm and interest in others with their personal charm. People find them fascinating and captivating. They inspire loyalty and devotion in their employees. This makes people respect and like them.

I hope this information proves useful to you. Please do not hesitate to contact me with any other queries you may have.

Yours sincerely,

Tara Murphy

TARA MURPHY
Name in Capitals

MANAGEMENT CONSULTANT
Title in Capitals

Business Report

A report is a written document in which one person sets out the findings of his investigation into a certain issue. He also makes recommendations to solve the issue. A manager will write a report or ask for one to be written for a number of different reasons:

Objectives	Examples
1. To give information to people about a specific topic	Every year, companies prepare an Annual Report, informing the shareholders (owners of the company) of the company's performance over that year.
2. To **investigate** an incident, i.e., to find out how and why it happened	When there is an accident in a factory, the manager will ask for an accident report to be completed. It involves writing down details of how the accident happened.
3. To come up with **solutions** to a particular problem	The government set up a Commission on Housing to write a report to suggest solutions to Ireland's housing crisis.
4. To investigate the **impact** of decisions	A business will draw up an Environmental Impact Statement to see how its project will affect the environment.
5. To **convince** the reader to adopt a particular course of action	In 2004, publicans had economic reports drawn up to show that their businesses would suffer and jobs would be lost if the smoking ban in pubs and restaurants was introduced. They used these reports to try to persuade the Minister for Health not to introduce the smoking ban.

A report is laid out in a formal and professional way using the following headings:

Layout of a Report	
1. **Title**	The title sets out the objective of the report together with the name of the person who commissioned the report and the name of the person who wrote the report.
2. **Table of contents**	This is a list of each section of the report and the page number where it can be found.
3. **Executive summary**	The summary briefly points out the major findings and conclusions of the report.
4. **Terms of reference**	The terms of reference set out the issues that the report writer was asked to investigate and the instructions given to her telling her how to carry out her investigation.
5. **Findings**	This section sets out the basic facts that were discovered by the report writer.

6. Conclusions and recommendations	The report writer sets out the reasons for the event and what action she thinks should now be taken.
7. Appendices	This contains extra, more detailed information such as statistics that readers can refer to if they wish.
8. Bibliography	This sets out all the sources of information used by the report writer.

Here is an example to illustrate:

Using a fictitious name and address, draft a report to the Managing Director of a business, setting out the implications of managers adopting a Theory X approach to motivating.

ANSWER

Report on implications of managers adopting a Theory X approach to motivating in Atunrase Ltd

To: Mercy Atunrase, Managing Director of Atunrase Ltd

From: Thomas Canavan, Management Consultant

Date: 17th June 2026

Terms of reference: To investigate the implications of managers adopting a Theory X approach to motivating in Atunrase Ltd

Findings:

Employees resent the way a Theory X motivator treats them. It does not encourage them to do their very best work. They will not make excellent quality products or give customers the best service.

Employees working under a Theory X approach have a bad relationship with their manager. They are therefore less likely to talk out any difficulties they may have in a spirit of cooperation and conciliation. They are more likely to try to resolve their grievances by going on strike.

A manager who adopts a Theory X approach will find it difficult to retain excellent employees as they will quickly become disillusioned with his attitude and their job. They will leave to go to jobs where they will be happy and fulfilled. Thus, the business will suffer higher costs from constantly having to replace employees who leave.

Signed: Thomas Canavan

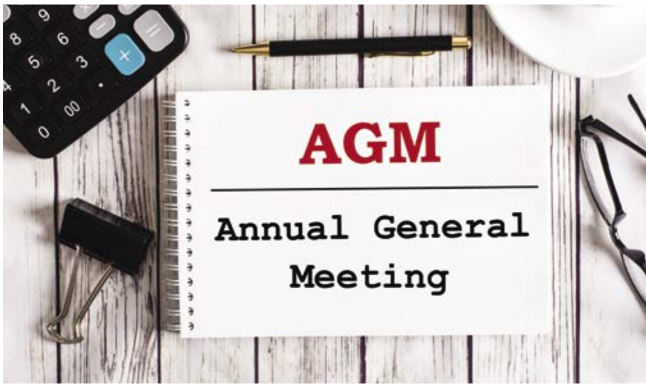
THOMAS CANAVAN

Management Consultant

Oral Communications

We will now look at a very important type of oral communication – the meeting. Managers spend a lot of their working time having business meetings with various people.

Business Meetings



A meeting is when two or more people come together for the purpose of discussing a predetermined topic and making decisions. There are many different kinds of meetings in business, including the following:

1. **Annual General Meeting (AGM)**
   - This is a meeting a company may hold every year. Under the Companies Act 2014, companies limited by shares (LTD) do not have to hold one, but Designated Activity Companies (DAC) must hold one every year (*see Chapter 19*).
   - The purpose of this meeting is for the directors (who run the company) to give all the shareholders (owners) information about how the company is doing. They present a copy of the company's audited financial statements to the shareholders.
   - The AGM also allows the shareholders the opportunity to question the directors on how the company is performing and its future plans.
   - It is also used to make important decisions such as electing the board of directors to run the company for the upcoming year.

2. **Extraordinary General Meeting (EGM)**
   - An EGM deals with matters outside the normal business conducted at an AGM. It is usually called on short notice and deals with an urgent matter. The meeting deals only with this urgent matter and nothing else is discussed at it.
   - Directors can call an EGM when they see fit, for example if they wish to obtain the prior approval of shareholders before taking a certain course of action.

> Aer Lingus held an EGM to discuss its proposed takeover by International Airlines Group (IAG).

3. **Statutory Meeting**
   - The statutory meeting is the very first meeting of the shareholders in the company. It is held only once in the life of a company.
   - It can be called by the directors of the company only who must do so within the prescribed time limit as set down by law.
   - The purpose of the statutory meeting is for the shareholders to receive information about and discuss any matters relating to the setting up of the company. (*See also in Chapter 19.*)

4. **Board Meeting**
   - A board meeting is a meeting of the board of directors who run the company. Such meetings are usually held monthly.
   - At these meetings, the directors make all the major decisions affecting the company and set goals for it to achieve and devise strategies to make sure these goals are accomplished. (*See also in Chapter 19.*)

Purpose/Advantages of Meetings

- **To solve problems:** Meeting people face to face is a great way to resolve conflicts as both parties can build a rapport and a relationship with each other. The personal nature of the communication makes it easier to reach agreement.

> A shop steward and a manager would meet each other to solve an industrial dispute in the factory.

- **To make better decisions/generate ideas:** Meetings are a great way to make good decisions and generate ideas. Each person at the meeting brings their experience and knowledge to the discussion. People can add to and build on the contribution of others. This is called "brainstorming". It leads to better decisions and ideas than one person would make on their own.
- **To save time:** Meetings help save time. Instead of telling people information individually, they can be brought together as a group and all told at the same time.

Essential Elements of Meetings

- The meeting must be **well planned** in advance by the secretary. A suitable venue and all the necessary facilities (such as handouts, seating, refreshments and so on) must be organised.
- A **notice** of and an **agenda** for the meeting must be sent out to all those concerned in plenty of time.
- A **Chairperson** and a **secretary** are needed.
- Before the meeting can begin, the Chairperson must ensure that a **quorum** is present.
- **Minutes** of the meeting must be kept.

1. Notice

The notice is an invitation to people to come to the meeting. It is a written document setting out the date, time and venue of the meeting. The secretary sends out the notice of the meeting.

2. Agenda

An agenda is a written list of all the topics to be discussed at the meeting. The topics are put in order of importance. The first item is the most important and the last item is the least important.

The agenda always starts with the minutes of the last meeting. This means that the people at the meeting begin by quickly reviewing what took place at the last meeting. It always ends with Any Other Business (AOB).

An agenda is important for the following reasons:

- It lets people know what the meeting is about so that those interested will attend.
- It allows people to prepare in advance what they are going to say at the meeting on particular issues contained in the agenda.
- It ensures that all the important work is covered first and that the meeting does not get bogged down with trivial matters.

Here are examples of notices and agendas for a club and for a company:

Notice and agenda for a club	Notice and agenda for a company
Notice and Agenda for Finglas LTC	**Notice and Agenda for Alpha Ltd**
The Annual General Meeting of the Finglas Lawn Tennis Club will take place in the Clubhouse at 7 p.m. on 1st July 2026. The agenda is as follows: **1.** Minutes of the 2025 AGM **2.** Matters arising from those minutes **3.** Club Chairperson's Report **4.** Club Treasurer's Report **5.** Club subscriptions for 2027 **6.** Election of new President **7.** Any Other Business Signed Paul Flynn Paul Flynn Secretary	The Annual General Meeting of Alpha Ltd will take place in the Divan Hotel, Gardiner Street, Limerick at 3 p.m. on 1st July 2026. The agenda is as follows: **1.** Minutes of the 2025 AGM **2.** Matters arising from those minutes **3.** Chairperson's Report **4.** Auditor's Report **5.** Dividend for 2026 **6.** Election of new directors **7.** Any Other Business Signed Angela Duffy Angela Duffy Secretary

3. Quorum

The quorum is the **minimum number** of people that must be present at the meeting before it can start.

The company or club can choose whatever number it wants for its quorum. If that minimum number of people does not show up at the meeting, the meeting cannot proceed and has to be postponed.

A quorum is important:

- To stop decisions being taken by a few people who show up but are only a minority of those who could attend.
- To ensure that topics are fully discussed by a range of people.

4. Chairperson

Every meeting must have a Chairperson to start it, run it, control it and end it. The functions of the Chairperson are to:

1. Make sure that a **quorum** is present before the meeting begins. This means that she must count the number of people who have turned up for the meeting and check that the minimum number necessary (quorum) is present. If not, she must postpone the meeting.
2. **Open** the meeting. If a quorum is present, the Chairperson starts the meeting and begins with the first item on the agenda and works down through it.
3. Maintain proper **order** at the meeting. This involves making sure that standing orders are obeyed. (Standing orders are the rules for conducting the meeting, such as raising your hand to speak and imposing a time limit on how long a person can speak for.) The Chairperson also ensures that all discussion is relevant, that everyone gets a chance to speak and that no one person dominates the meeting.
4. Call for a **vote** on a motion (particular topic of discussion).
5. Use her **casting vote** in the event that a vote is tied. This means that if the meeting is split 50:50 on a decision, the Chairperson must then vote. Whatever way she votes is obviously the winner.
6. **Close** the meeting when it is over and the agenda has been worked through.

CHARACTERISTICS OF A GOOD CHAIRPERSON	
Impartial	A good Chairperson must be unbiased. No matter what her own views are, she must be fair to all sides and give everyone an equal chance to speak.
Tactful	The Chairperson is in charge of the meeting and must make sure that people do not talk too long. If they do so, she must stop them. But she should not be rude to them. She should be pleasant but firm. Unpleasantness to one speaker may make other speakers reluctant to air their views.
Speak clearly	The Chairperson is in charge of the meeting. It is important, therefore, that everyone present can hear her and understand her. This helps to ensure that they will obey her instructions and the meeting will run smoothly.
Know the rules	A good Chairperson must know all the rules for running the meeting. If any problems arise at the meeting, she will know exactly how to handle them, according to the rules.

5. Secretary

The secretary is responsible for all the organisation, administration and paperwork associated with the meeting. The functions of the secretary are to:

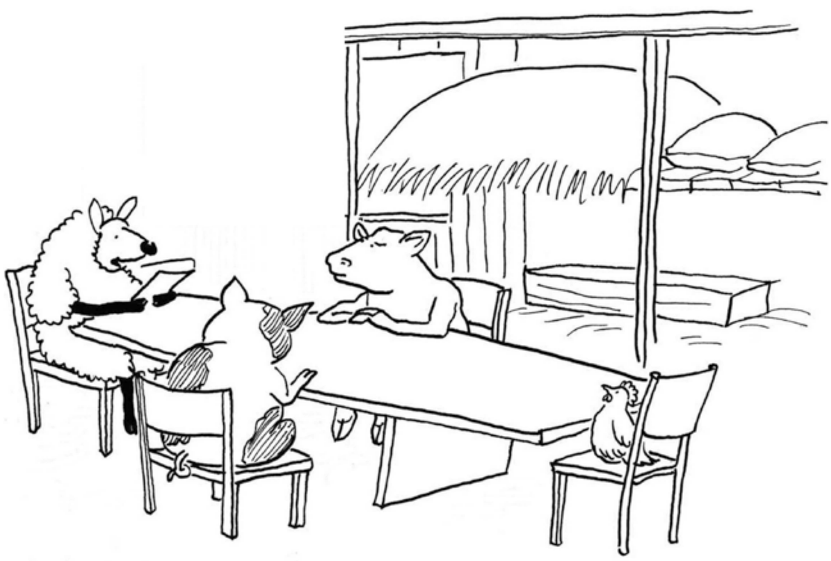
1. Organise the **venue** and all the facilities and equipment needed for the meeting.
2. **Send** out the notice and agenda for the meeting to people in plenty of time.

3. Record the **minutes** of the meeting. This means that he takes a summarised written record of exactly what is said at the meeting and what decisions are made.
4. **Read** out to the meeting the minutes he took at the previous meeting.
5. Deal with all the **correspondence** (writing and receiving letters and paperwork) arising from the meeting.
6. Advise and **assist** the Chairperson if she is having any difficulties at the meeting.

CHARACTERISTICS OF A GOOD SECRETARY	
Good organiser	A good secretary must get all his jobs done on time. He must be organised to get the venue booked in time so that it is available for the date of the meeting. He must send out the notice and agenda in plenty of time so that people will have time to organise themselves to come to the meeting.
Good writer	The secretary has a lot of writing to do before (notice and agenda), during (minutes) and after (letters) the meeting. It is important that he can write well and clearly so that everyone can understand the notice, agenda and minutes properly.
Good Summariser	The secretary must prepare a written summary of each meeting, called the minutes. It is important, therefore, that he is able to take down the most important points raised at the meeting and prepare a summary that is good enough to allow someone who was not actually at the meeting to understand what happened at it.

6. Minutes

The secretary writes up the minutes of each meeting. Minutes are a **summarised** written record of what happened at the meeting – who was there, who spoke, what they said, what decisions were made and so on.



"The cow mooed, the pig oinked, the chicken clucked, I baaed and then we adjourned."

They are **not** a word-for-word transcript of every single word that was spoken at the meeting. They are a summary of the meeting. They must be complete and precise enough so that anyone who was not at the meeting could read the minutes and understand exactly what occurred at it.

There now follows an example of a minutes for a club and a company. Note how the minutes (written after the meeting) correspond exactly to the notice and agenda (written before the meeting takes place).

Notice and agenda for a club		Minutes for a club
Notice and Agenda for Finglas LTC		**Minutes of Finglas LTC AGM**
The Annual General Meeting of the Finglas Lawn Tennis Club will take place in the Clubhouse at 7 p.m. on 1st July 2026. The agenda is as follows:		The Annual General Meeting of the Finglas Lawn Tennis Club took place in the Clubhouse at 7 p.m. on 1st July 2026. The minutes are as follows:
1. Minutes of the 2025 AGM	→	**1.** The minutes of the 2025 AGM were read and approved.
2. Matters arising from those minutes	→	**2.** There were no matters arising from the minutes.
3. Club Chairperson's Report	→	**3.** The Chairperson addressed the meeting. She said that it had been a very successful year for the club in terms of new members and trophies won.
4. Club Treasurer's Report	→	**4.** The Treasurer addressed the meeting and stated that the club's finances were in a healthy position and the club could now afford to take out a loan for the clubhouse extension.
5. Club subscriptions for 2027	→	**5.** The meeting voted by 12 votes to 3 that the annual subscription for 2027 be increased to €400 per annum.
6. Election of new President	→	**6.** Marian Cassidy beat Tom Patterson by 10 votes to 5 and was elected Club President for 2027.
7. Any Other Business	→	**7.** As there was no AOB, the Chairperson closed the meeting at 8.15 p.m.
Signed Paul Flynn Paul Flynn Secretary		Signed Paul Flynn Paul Flynn Secretary

Notice and agenda for a company		Minutes for a company
Notice and Agenda for Alpha Ltd		**Minutes of Alpha Ltd AGM**
The Annual General Meeting of Alpha Ltd will take place in the Divan Hotel, Gardiner Street, Limerick at 3 p.m. on 1st July 2026. The agenda is as follows:		The Annual General Meeting of Alpha Ltd took place in the Divan Hotel, Gardiner Street, Limerick at 3 p.m. on 1st July 2026. The minutes are as follows:
1. Minutes of the 2025 AGM	→	**1.** The minutes of the 2025 AGM were read and approved.
2. Matters arising from those minutes	→	**2.** There were no matters arising from the minutes.
3. Chairperson's Report	→	**3.** The Chairperson addressed the meeting stating that profits were higher than last year due to the upturn in the Irish economy.
4. Auditor's Report	→	**4.** The auditor stated that the company kept proper books and that the accounts gave a true and fair view of the company's financial position.
5. Dividend for 2026	→	**5.** The meeting decided that the dividend for the financial year 2026 would be €0.07 per share.
6. Election of new directors	→	**6.** Kathleen Brady and Michael Foley were elected to the Board of Directors unopposed.
7. Any Other Business	→	**7.** As there was no AOB, the Chairperson closed the meeting at 4.15 p.m.
Signed Angela Duffy Angela Duffy Secretary		Signed Angela Duffy Angela Duffy Secretary

Visual Communications

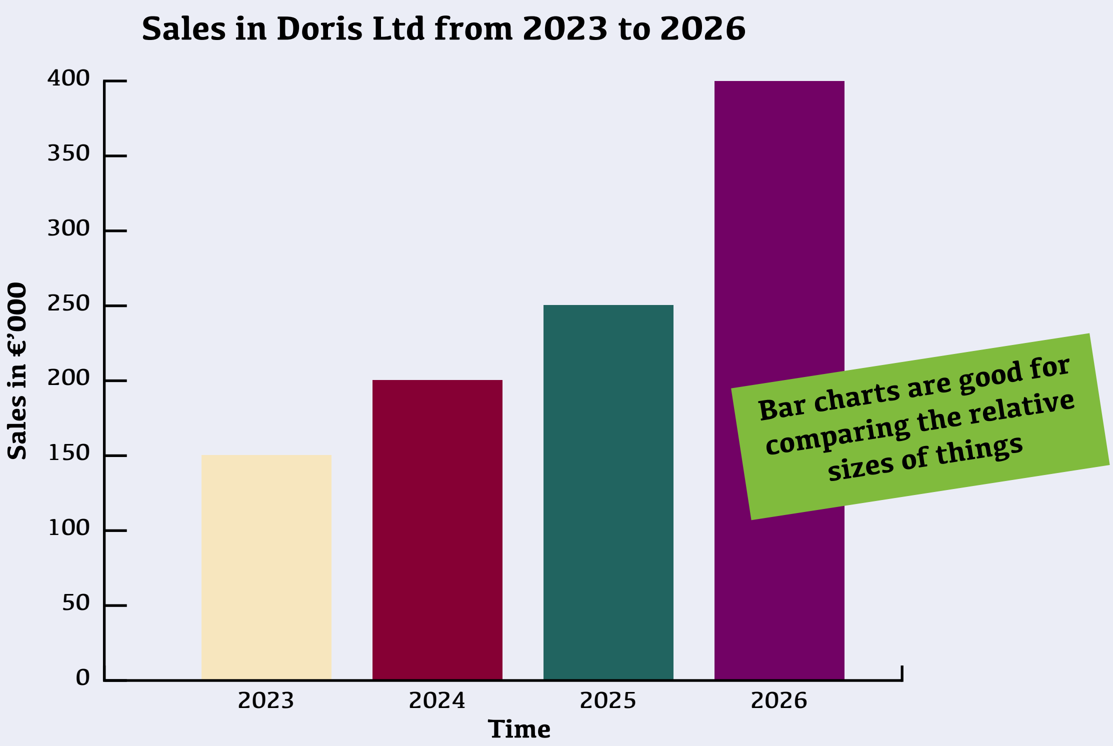
We will now look at a number of different types of visual communication:

Bar Charts

- A bar chart displays the information in the form of bars (rectangles).
- The bigger the size of each item, the bigger the bar is drawn to represent it.
- Bar charts are good to show the **relative sizes** of things.

The following table shows annual sales figures in Doris Ltd from 2023 to 2026.

Year	2023	2024	2025	2026
Sales in €	150,000	200,000	250,000	400,000



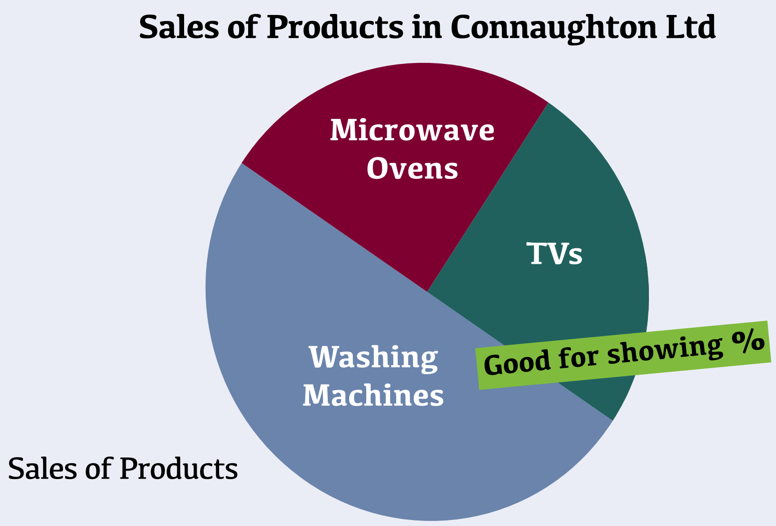
Pie Charts

- A pie chart shows the total of all the items you are talking about as a circle.
- Fractions of the circle are shaded in to represent the fraction that each item bears to the total.
- Pie charts are a good way of showing **fractions** and **percentages**.

Connaughton Ltd has the following sales information available for the month of June:

Product	Microwave ovens	Washing machines	TVs	Total sales
Sales in €'000	25	50	25	100

This information can be presented as a pie chart as follows:



- One quarter of the pie is shaded "microwave ovens" because microwave oven sales are one quarter (25/100) of the total sales.
- One half of the pie is shaded "washing machines" because washing machine sales are one half (50/100) of the total sales.
- One quarter of the pie is shaded "TVs" because TV sales are one quarter (25/100) of the total sales.

Pictograms

- A pictogram represents the information in the form of pictures.
- Each picture represents a certain amount of the item in question.
- Pictograms are a good way of showing the **different sizes** of the items in question.

The following table shows the number of employees in Wilson Ltd, a huge multinational company, from 2023 to 2026.

Year	2023	2024	2025	2026
Numbers employed	150,000	200,000	250,000	400,000

This information can be illustrated using a pictogram:

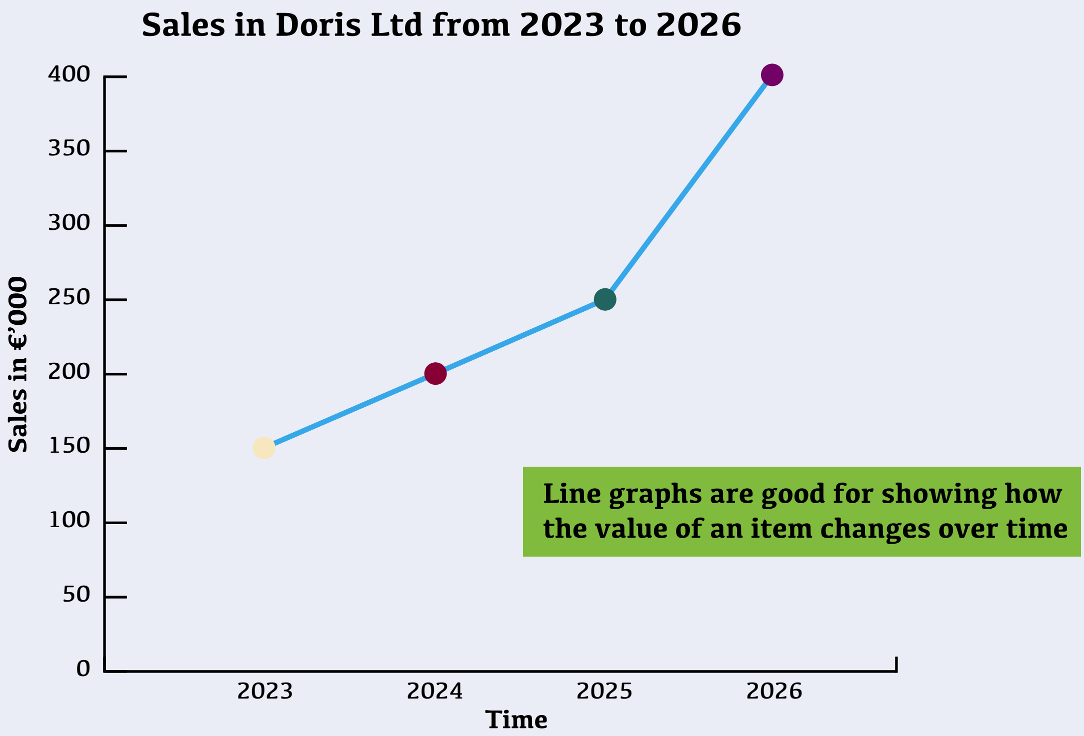
Line Graphs

- Line graphs are used to show how the value of an item changes over time.
- The value of an item is plotted as a point.
- The value some time later is plotted as another point.
- The points are then joined by a straight line to show the trend over time.

The following table shows annual sales figures in Doris Ltd from 2023 to 2026.

Year	2023	2024	2025	2026
Sales in €	150,000	200,000	250,000	400,000

We can illustrate the above data by means of a line graph.



Choosing a Method of Communication

When deciding on the correct method of communication to use (i.e. whether it is best to use a type of written or oral or visual communication and, if so, which type), a manager should consider the following factors:

Cost	■ The business should choose the most cost-effective method, so that it can keep costs to a minimum. ■ A good example of an inexpensive but effective method of communication is email. ■ It allows the business to send as many messages as it wants for a low fixed monthly fee. ■ Aer Lingus emails all of its customers regularly with special offers. This proves a lot more cost effective than posting a letter to each customer. ■ The Chief Executive Officer of a business can communicate with his managers all over the world using videoconferencing. This cuts out travel costs.
Urgency of the message	■ If the message is urgent and must get to the receiver immediately, the business must use the quickest method possible to get the message across. ■ The telephone is an appropriate method because it is quick and you know for certain that the receiver has got the message. If for example, the manager needed to order more stock urgently, it would be best to phone the supplier. ■ Sending the message by letter would be unadvisable as it is one of the slowest methods.
Need for confidentiality	■ If the message is private and the contents are top secret, the business must use a confidential method of communication. ■ For example, if a manager was sacking an employee, a face-to-face conversation is appropriate as it is confidential.
Nature of the message	■ The contents of the message can determine the best method of communication to use. ■ For example, if the message is long, very detailed and complicated, the best method to use is written communication. ■ Although car manufacturers advertise extensively on television, they also advertise in newspapers, because in newspapers they can write down all the technical specifications about the car. ■ If proof of the communication is needed, the business must use a method of communication that keeps a record. The best to use is written communication, in this case.
Legal requirements	■ The law of the country might determine the method of communication that must be used. ■ For example, in Ireland, for an agreement to buy a house to be a legal contract, the communication of the agreement must be in writing.

Barriers to Effective Communication

Barriers to communication are things that stop the message getting through the way the sender intended. They stop the receiver understanding the message and acting on it accordingly. The following are barriers to communication:

Language	■ If the sender uses difficult words in her message that the receiver does not understand or if she uses jargon*, the receiver will not know what the message is about and will not be able to act appropriately on it. ■ Jargon* is technical language used by people in a specific industry or workplace that only *they* understand. For example, in Chapter 11 we will see that accountants refer to a business's borrowings as "gearing". While accountants know what "gearing" is, most other people would not understand this accounting jargon. ■ This barrier can be overcome by using clear simple language appropriate to the receiver.
Information overload	■ Too much information in a communication can result in the receiver ignoring the communication because she cannot process the large volume of information it contains. ■ For example, a manager who constantly emails staff with trivial emails (happy birthday, congratulations on your new house, etc.) may find that staff begin to ignore his emails, including the important ones. ■ Longwinded, overly detailed explanations can make the meaning unclear. ■ This barrier can be overcome by sending short, snappy and to-the-point messages.
Prejudice	■ If the receiver has an unfavourable opinion of the person sending the message, he might not fully take in or listen to what she is communicating because of his bias towards her. Therefore, the message does not get through to him. ■ This barrier can be overcome by training managers to be more tolerant and understanding of other people.
Timing	■ If the message is sent too late, the receiver may be unable to act upon it in time and therefore the communication is useless. ■ For example, emails sent outside normal working hours may not be read. Messages received at the end of the working day may be ignored. ■ This barrier can be overcome by planning communications carefully so that adequate time is given to prepare and send the message and to allow the receiver to understand it fully.
Poor listening skills	■ Effective communication involves receiving information as well as giving it. Some people do not listen properly. They may be thinking about what they are going to say next, or they may be distracted or bored. Therefore, they cannot receive the information properly and, hence, cannot act on it appropriately. ■ This barrier can be overcome by looking for feedback and asking the receiver questions to make sure that she is listening and fully understands the message.

Lack of trust	■ If the receiver cannot trust the sender to tell the truth, she will not listen to the message, let alone act on it appropriately. ■ She does not listen to or believe what the other person is saying because they have proved to be untrustworthy in the past. This is known as "crying wolf". ■ This barrier can be overcome by building up long-term trusting relationships and using communications training.

Importance of Good Communication

In Chapter 6, we said that there are many advantages for a business if the manager is a good leader and motivator. Similarly, it is very important that a manager can communicate effectively for the following reasons:

- Effective communication improves **industrial relations** in a business. Listening carefully to the problems and grievances expressed by the employees' trade union and talking them out in a spirit of cooperation will help to prevent industrial relations problems, including strikes.
- Effective communication improves **productivity** in the business. If the manager speaks clearly and simply when giving employees their instructions, they will understand exactly what is required of them and perform these tasks accurately without delay and meet all deadlines.
- Effective communication leads to **better decision-making**. Managers hold regular meetings with others. Each person at the meeting brings their experience and knowledge to the discussion. People can add to and build on the contribution of others (brainstorming). This leads to better decisions than one manager would make on her own.
- Effective managers encourage **upward communications**. They listen to and welcome employee suggestions. Employees like to be asked for their opinions and given the opportunity to make useful contributions to the business. They are more likely to show intrapreneurship and offer ideas to the manager to help him increase sales and/or reduce the business's costs.

Principles of Good Communication

The following is a set of guidelines to help managers to be better communicators:

Principle of Good Communication 1: Appropriate Language

An important principle of good communication is to use language that you know the receiver is familiar with and to avoid the use of unnecessary jargon. This will ensure that the receiver understands the message perfectly and acts on it in the way the business wants.

- **In internal communications:** It is important that the manager speaks clearly and simply when giving employees their instructions. If the employees do not understand what the manager says to them (perhaps because she uses jargon), they will not be able to do the job required of them. They will make mistakes and waste time and money for the business as a result. Using appropriate language improves productivity.

- **In external communications:** It is important that the marketing manager uses clear and unambiguous language when drawing up the company's advertising campaign so that customers understand the product properly and are motivated to buy it.

When Disney was advertising Walt Disney World Resort, it used the phrase "roughly half the size of Rhode Island" to describe its size to American customers. Knowing that this makes little sense out of the USA, it changed it for other markets. In the UK, they changed it to "roughly the size of greater Manchester". In Japan, they changed it to "roughly the size of the subway system".

Principle of Good Communication 2: Listen Carefully

An important principle of good communication is to pay careful attention to what the other person is saying. In this way, the receiver will understand the message exactly as intended.

- In internal communication: It is important that the manager listens very carefully to what the employees' trade union says to her. If she does not listen carefully to the issues they raise, she may end up with a strike on her hands that will damage the business's reputation.
- In external communication: It is important that the marketing manager conducts market research and listens to what customers say. This will make sure that the business does not waste money bringing out products nobody wants and it may give it ideas for new products.

Principle of Good Communication 3: Send Message in Time

An important principle of good communication is to send the message in plenty of time. If the receiver gets the message too late, she will not be able to act on it in the way the business wanted.

- **In internal communication:** It is important that the secretary sends the notice and agenda for a Board of Directors meeting to each director in plenty of time so that they are able to clear their schedules and attend the meeting. Otherwise, some directors might not be able to attend, and bad decisions could be taken without their advice.
- **In external communication:** It is important that the production manager sends the orders for new stock to the suppliers in plenty of time. If she leaves it until the last minute to order new stock, she may find that the supplier cannot deliver when she wants and so the business will be left without any stock to sell to customers. This will result in the business losing sales and profits.

Principle of Good Communication 4: Be Honest

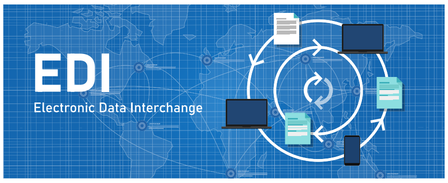
An important principle of good communication is to be trustworthy and to never tell lies or seek to mislead people. If people cannot trust a business, they will not believe its communications and will not act on them appropriately.

- **In internal communication:** It is important that the managers are honest with the employees about the reasons for any changes being brought in. This will help the employees accept the change more readily.
- **In external communication:** It is important that the business communicates honestly with its consumers. It should never make false or misleading claims in its advertisements. If consumers cannot trust the business, they will shop elsewhere and the business will lose sales and profits.

Information and Communications Technology (ICT)

We now look at the modern methods of communications used by businesses. These are collectively called Information and Communications Technology or ICT for short.

Electronic Data Interchange (EDI)



This is a system that electronically links the computers of two different companies. The computers are then programmed to send standard documents (such as orders and invoices) directly from one to the other without the need for any further human involvement.

When a clothing store's stock of shirts falls to a certain level, its computer is programmed to automatically send an order to the shirt manufacturer's computer for more shirts.

Advantages of EDI

1. There is no need for paper documents because all communication is sent and stored electronically. Thus, EDI helps a business to meet its environmental responsibilities and save money on stationery and storage of documents. These savings increase the business's profits.
2. The business no longer needs employees to process stock orders as the computer does all this work. It can make these employees redundant and hence reduce its wages bill. Lower wages bills mean higher profits for the business.
3. Orders are automatically sent by the business's computer. There is no time delay for posting. The supplier receives the order instantly. The supplier can start getting the business's order ready as soon as it is received. Therefore, the business will receive new stock faster, so there is less chance of it running out of stock. In this way, EDI helps a business to manage its stock properly so that it never runs out.

Videoconferencing

This is a meeting held between people who are in different locations. The participants sit in front of a camera. Live video (image and sound) is sent over the internet to screens in all the other locations so that all participants can see and hear each other.

Advantages of Videoconferencing

1. Managers do not have to travel to meetings. This saves them a lot of time. They can devote this time to other more important tasks to make the business a success.
2. The business saves money. It does not have to pay for all the expenses associated with managers travelling for meetings. This lowers the business's costs and increases its profits.

Internet – World Wide Web (WWW)

The World Wide Web is a vast collection of information on millions of topics that you can access on your computer once you are connected to the internet. Many businesses have their own websites, displaying information about the business and its products.

Advantages of the Internet

1. **Advertise and increase brand awareness:** It allows a business to advertise its products on its own website and on other websites which people all over the world can see. This leads to a better-known brand name and increased sales for the business. The use of social networking sites such as Instagram and Twitter allows a business to reach a global audience and form a real connection with consumers all around the world.
2. **Increase sales:** The internet enables businesses to engage in e-commerce. A business can showcase its products on its website and customers from any part of the world can order the products by clicking on an item and sending their credit card details over the internet as payment.

   This saves the business a lot of money by not having to open shops all over the world and not employing sales staff.

> Lily O'Brien's Chocolates can export all over the world through its website www.lilyobriens.ie.

3. **Better decisions:** It helps managers to make good decisions. If they need information about a particular problem, they can find the information they need on the internet in seconds. Quick and easy information about a problem helps them to make a quick and easy decision.

Email

Email allows you to send a typed message (including other information such as pictures, sounds, movies and so on) from your email address to someone else's.

Each user has a unique email address. Incoming emails are stored in a mailbox and can be opened by the receiver at any time, using a computer, phone, tablet, etc.

Advantages of Email

1. It saves money for a business on postage and stationery. The message is sent online, and the business does not waste money on paper. With broadband, a business can send as many emails as it wants for one fee.

> Aer Lingus emails all of its customers regularly with special offers. This proves a lot more cost effective than posting a letter to each customer.

2. It is a quick form of communication. Messages can be sent and received instantly at the other end. Therefore, the business can get an instant reply. This saves a lot of time.

Problems with Email

1. Email can be used only if the other person has a way of receiving them, i.e. a computer or mobile internet device.
2. Sending information over the internet is not always secure. People can hack into your email or you may send an email to the wrong address.

3. Businesses often receive malicious emails containing viruses which, when opened, can destroy the business's computer system.

We have just looked at ICT. There is a law that businesses must obey when it comes to their computer systems and to other ways that they keep information about people. This law is called the General Data Protection Regulation (GDPR).

General Data Protection Regulation (GDPR): Data Protection Acts 1988–2018

Data protection is the means by which the privacy rights of individuals are **safeguarded** in relation to the processing of their personal data.

For example, a business might use **encryption** as a method of data protection – this is where it encodes messages so that only authorised people can read them.

GDPR is one set of rules for the whole of the **EU**. This means you have the same rights whomever in the EU you give your data to. Companies from outside the EU are not exempt. If they offer goods and services in the EU or if they monitor your behaviour in the EU, then they must give you the same level of data protection.

Rights of Data Subjects

A data subject is the individual the personal data relates to. The law gives rights to data subjects whose **personal data** is **collected and processed** by organisations.

Personal data is any information that can identify an individual person. This includes a name, an ID number, location data (for example, location data collected by a mobile phone), a postal address, online browsing history, images or anything relating to the physical, genetic, mental, economic, cultural or social identity of a person.

The term "**processing**" refers to any operation performed on personal data. It basically means using personal data in any way. Processing includes storing, collecting, retrieving, using, combining, erasing and destroying personal data and can involve automated or manual operations.

Data subjects have the following rights when an organisation takes and records their personal details:

1. **The Right to be Informed**
   - When a data controller is collecting information from you, she must identify herself and give you her contact details.
   - She must also inform you of the reason why she wants your personal data, how long she intends to keep it and details of who else will get to see it.

2. **The Right to Access**
   - An individual has the right to know whether or not an organisation is processing personal data about him.

- If a data controller is processing his personal data, he has the right to be given a copy of all the personal information the data controller has on him, within a month and free of charge. It must be provided in a transparent, understandable and easily accessible manner, using clear and plain language.

You bought a fitness tracker and subscribed to a health app that monitors your activity. You can ask the app operator for all the information processed on you. This includes all subscription data (such as your name and contact details where relevant) and all information collected about you through the tracker (such as heart rate, performance, etc.).

3. The Right to Rectification

- If your personal data is inaccurate, you have the right to have the data corrected by the controller without undue delay (within one month usually).
- If your personal data is incomplete, you have the right to have data completed, including by means of providing supplementary information.

You apply for a new insurance policy but notice the company mistakenly records you as a smoker, increasing your life insurance payments. You have the right to contact them and get this corrected.

4. The Right to Erasure

- This is also known as the "**right to be forgotten**". You have the right to have your personal data deleted, without undue delay, (within one month usually) by the data controller, where she no longer needs it for the purpose for which it was collected or processed.
- You also have the right to have your personal data deleted where you withdraw your consent to the processing and there is no other lawful basis for processing the data.

When you type your name into an online search engine the results include links to an old newspaper article about a debt you paid long ago. If you are not a public figure and your interest in removing the article outweighs the general public's interest in accessing the information, the search engine is obliged to delete the links and the newspaper is obliged to remove the article from its website.

5. The Right to Object

If a data controller uses your personal details for the purpose of marketing something directly to you, or profiling you for direct marketing purposes (e.g. a business has your name and address on file and regularly sends you letters outlining special offers, etc.), you can object at any time, and the data controller must stop processing as soon as they receive your objection.

You bought two tickets online to see your favourite band play live. Afterwards, you are bombarded with adverts for concerts and events that you are not interested in. You inform the online ticketing company that you do not want to receive further advertising material. The company should stop processing your data for direct marketing and, shortly afterwards, you should no longer receive emails from them.

6. Rights in Relation to Automated Decision-making

- You have the right to *not* be subject to a decision based solely on automated processing. Processing is "automated" where it is carried out without human intervention and where it produces legal effects or significantly affects you.
- Automated processing is permitted only with your express consent or when necessary for the performance of a contract. In these cases, you have the right to have human intervention in the decision-making process, the right to present your point of view and the right to challenge the decision.

> You apply online for a car loan, which is turned down. You have the right to contact the bank and explain why you would like a person to have another look at your application.

Obligations of Data Controllers

A data controller refers to a person, business, or other organisation that decides how and why a data subject's personal data are processed. Data controllers must:

1. Obtain and Process Personal Data Fairly

- When a data controller is collecting information from an individual, she must **identify** herself and give the individual her contact details.
- She must also inform him of the reason **why** she wants his personal data and details of who else will get to see it.

> Conall runs a travel agency. When he obtains his clients' personal data, he should explain in clear and plain language why he needs the data, how he will be using it, and how long he intends to keep it.

- An organisation must have a valid **lawful** basis to process personal data. One of these is to **contract** with the individual, for example, to supply goods or services they have requested.
- Alternatively, a business can process an individual's personal data with his **consent**. The business must be able to prove that consent has been received and so a record should be kept as evidence.

- Consent must be freely given, specific, informed, unambiguous and be in plain language. Individuals also have the right to withdraw consent at any time and it must be as easy to withdraw as to give consent.

CONSENT TERMS AND EXPLANATIONS	
Freely given	Consent will not be regarded as freely given if the individual has no genuine choice or is unable to refuse or withdraw consent without penalty, for example in an employee/employer relationship.
Specific	If processing has multiple purposes, consent should be obtained for each of them.
Informed	The individual should be aware of the identity of the controller and the purpose of the processing.
Unambiguous	The individual must *explicitly* give his consent. This may be done through, for example, ticking a box when visiting a website or responding to an email requesting consent. Silence, pre-ticked boxes or inactivity does not constitute consent.

2. Keep Data Safe

- The data controller must take **appropriate security** measures to protect individuals' personal data.
- For example, the business should use encryption technologies for transferring, storing, and receiving individuals' sensitive personal information.
- The business must appoint a **designated person** (Data Protection Officer) to be in charge of data security. She is responsible for preventing and investigating security breaches in the business.

3. Report Data Breaches

- A data breach occurs when the data for which the controller is responsible is **lost** or **stolen**.
- If that happens, and the breach presents a risk to the affected individuals, the controller has to **notify** the Data Protection Commission within 72 hours after having become aware of the breach.
- If the leak poses a high risk to the individual (for example, identity theft), then he must also be informed personally.

4. Delete Information Once they no Longer Need it

- Data controllers cannot keep an individual's personal data if they no longer need it. If there is no good reason for keeping someone's personal information, the data controller **must delete it**.

If you give your credit card details, including expiry date and CVV number, to a business to make an online purchase, they should delete this information when the transaction is complete.

- The data controller should regularly **review** the data she holds and erase it when he no longer needs it.

5. **Give a Copy**

- The data controller must provide the individual with a copy of his personal data, if he requests it, free of charge, within a month.
- She must also **transfer** his data to another business, in a commonly used format, if he asks for this. This is called "data portability".

Data Protection Commission

The Data Protection Commission was set up by the government. It has the following functions:

1. **Examine Complaints from Individuals**
   - The Data Protection Commission must investigate any complaints it receives from individuals who feel that their personal data is not being treated according to the rules of the GRPR.
   - The Data Protection Commission considers all the evidence and makes a decision on the matter. It has the power to issue the data controller with an enforcement notice requiring him to comply with an individual's request to exercise their data protection rights.
2. **Inform People of their Rights**
   - The Data Protection Commission promotes awareness amongst members of the public of their rights to have their personal information protected under data protection law.
   - It has a website (www.dataprotection.ie) and offers online guidance on the law.
3. **Undertake Investigations of its Own Volition**
   - The Data Protection Commission can conduct statutory inquiries into possible infringements of data protection legislation even if it has not received a complaint.
   - It has previously launched such inquiries into the data processing activities of Facebook, Twitter, WhatsApp, Apple, Google, Instagram and LinkedIn.
4. **Punish Data Controllers that Break the Law**
   - The Data Protection Commission is responsible for enforcing the GDPR in Ireland. It has the power impose sanctions, including fines, on businesses that break this law.
   - These fines can be as much as €20 million or 4% of worldwide annual turnover, whichever is higher.

Evaluation of the General Data Protection Regulation

This law is excellent because it gives Irish individuals a very high level of data protection when they give their data to anyone in the EU or to any non-EU business that offers goods and services in the EU.

Now that we have looked at the three management skills in detail, we end this chapter by exploring how these skills may be used in different situations, including in business.

MANAGEMENT SKILLS IN DIFFERENT SITUATIONS			
	Leading	**Motivating**	**Communicating**
HOME Parents decide to convert the attic into a study for you	Democratic parents will involve you in the decisions about the study – ask you what is needed, how you would like it decorated and so on.	Parents will incentivise and energise the builders by offering extra money if the study is ready before you go into 6th Year.	Parents must discuss clearly with the builder exactly what they want. Regular meetings will be held to discuss progress on the construction work.
COMMUNITY You set up a Tidy Towns Committee to clean up your area	You must delegate work to the volunteers and appoint a leader for each road to oversee the tidy up of that road.	You must energise and incentivise the volunteers by recognising their hard work with praise.	You must explain clearly to each volunteer exactly what she must do so that the whole area is ready for the judges' inspection.
SCHOOL A teacher sets up a drama class after school	The teacher will delegate different jobs to different students involved with the play, such as lighting, stage design and so on.	The teacher must incentivise the principal into allowing the drama class by satisfying her needs. Extra-curricular activities will make it a better school and satisfy the principal's esteem needs.	The teacher must communicate with each student what she expects them to do so that the play runs smoothly with no hitches.
GOVERNMENT DEPARTMENT The Irish government introduced measures to provide financial support to Irish workers and businesses affected by the Covid-19 pandemic	The government delegated the job of paying supports to civil servants.	During the pandemic, the government motivated entrepreneurs into closing their businesses and not sacking their employees through periods of lockdown by making financial payments to them.	The government ran advertising campaigns to inform the public of the supports it was making available to help people through the pandemic.
BUSINESS START-UP	The entrepreneur must delegate various jobs to different managers and employees to make sure that everything gets done.	The entrepreneur must incentivise investors to provide the capital needed by promising a good return on investment.	The entrepreneur must inform the public that her product is available for sale by advertising.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "internal" and "external" communications.
2. List **four** methods of internal communication.
3. List **four** methods of external communication.
4. List **four** methods of oral communication.
5. List **four** methods of visual communication.
6. Draw a bar chart using the following information:

Units Sold by Peter Ltd					
Year	2022	2023	2024	2025	2026
Number of units	2,000	2,500	3,000	4,000	3,500

7. Draw a bar chart using the following information:

Value of Exports of Tara Ltd in 2025					
Country	UK	US	Belgium	China	Others
Value of exports in €'m	18	12	10	4	6

8. Draw a pie chart to illustrate the following information:

Costs Incurred in Kate Ltd				
Cost	Wages	Electricity	Rent	Advertising
€'000	200	100	50	50

9. Draw a pictogram to illustrate the following information:

New Dwellings in Ireland in 2020			
Type	Single dwellings	Housing scheme	Apartments
Number built	5,000	12,000	4,000

10. Draw a line graph to illustrate the following information:

Houses Built in Ireland					
Year	2016	2017	2018	2019	2020
Houses	7,000	11,000	14,000	17,000	16,000

11. Draw a line graph to illustrate the following information:

Units Manufactured by Baile Ltd					
Year	2020	2021	2022	2023	2024
Number of units	55,000	50,000	45,000	60,000	65,000

12. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Poor listening skills
2. Prejudice
3. Jargon
4. Timing
5. Lack of trust
6. Information overload

Column 2: Explanations
(a) Message does not get through because the receiver cannot believe the sender
(b) Technical language, only understood by people in a specific profession
(c) Message is made unclear because it is far too long
(d) Receiver is biased against the sender and so doesn't take the message in properly
(e) Message does not get through because the receiver is not listening
(f) The law states that the message must be sent in a certain way
(g) Message is sent too late to be effective

1	2	3	4	5	6

13. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	It is best to use oral communication for a very complicated and difficult message.	
B	Businesses should use the quickest method of communication possible in all situations.	
C	The law of Ireland can sometimes dictate how a business must communicate.	
D	A face-to-face conversation is a confidential method of communication.	
E	If proof of communication is needed, it is best to use a written method.	

14. What do the following letters stand for? AGM AOB EGM
15. Define "quorum".
16. With regard to meetings, outline **two** characteristics of a good Chairperson.
17. With regard to meetings, outline **two** characteristics of a good secretary.
18. Distinguish between "agenda" and "minutes" at meetings.
19. Draft a memorandum (memo) using an appropriate format, from Ciara Doyle, Managing Director to all directors listing **three** methods of written communications used in the business. Use today's date.
20. Draft a memorandum (memo) using an appropriate format, from Alan Small, secretary to all managers listing **three** barriers to communications found in the company. Use today's date.
21. What do the following letters stand for? EDI WWW ICT
22. Outline **two** advantages of the internet for business.

EXAM SECTION 2 – LONG QUESTIONS

1. Draft a notice and agenda for a private limited company. You may use fictitious dates and names, but the agenda must contain at least **five** items. (25 marks)
2. Describe the role of the Chairperson at meetings. (15 marks)
3. Describe the role of the secretary at meetings. (15 marks)
4. You are the secretary of the Fareham Tennis Club which held its AGM last night. Draft the minutes of the meeting. (25 marks)
5. Outline **three** reasons why a business would ask for a report to be drawn up. (15 marks)
6. Describe **three** barriers to effective communications. (15 marks)
7. Outline **three** factors to be considered when deciding the best method of communication to use. (15 marks)
8. Explain the term "email". Give **two** advantages of email as a method of communication. (15 marks)
9. Under the Data Protection Acts, 1988–2018/General Data Protection Regulation, explain **three** rights that people have over information held about them by others. (15 marks)
10. Under the Data Protection Acts, 1988–2018/General Data Protection Regulation, explain **three** functions of the Data Protection Commissioner. (15 marks)

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Define "communications".
2. Illustrate your understanding of the term "external communications".
3. The following table shows three types of communication and four qualities.
For each quality, tick (✓) the type of communication that is most likely to match that function.

	Written	Oral	Visual
It is personal and good for reaching agreement			
Good for showing body language			
Good for presenting statistical information			
Provides a permanent record			

4. Explain **two** reasons why businesses use meetings as a method of communications.
5. What is a quorum? Explain its use in business.
6. Distinguish between "AGM" and "EGM".
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Agenda
2. Minutes
3. Chairperson
4. Secretary
5. Notice

Column 2: Explanations
(a) Minimum number of people that must be present at a meeting before it can begin
(b) Outlines the date, time and venue for an upcoming meeting
(c) Deals with all the correspondence arising from meetings
(d) Summary of business transacted at a meeting
(e) Maintains proper order at a meeting
(f) List of topics to be discussed at an upcoming meeting

1	2	3	4	5

8. Draft a memorandum (memo) using an appropriate format, to all department managers listing **two** advantages of written communications. Use today's date.
9. Draft a memorandum (memo) using an appropriate format, to all directors listing **two** factors to be considered when deciding which method of communication to use. Use today's date.
10. What is a report? Explain its use in business.
11. Videoconferencing can help a business to…
12. What do the following letters stand for? AOB EGM ICT EDI

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

ABQ 1

Tiny Tots Ltd

Gayle Jordan set up her crèche business, Tiny Tots Ltd, ten years ago after graduating top of her class from childcare college. She borrowed money from a local bank and got a generous grant from the government, which helped her to buy a crèche and equip it with the very best childcare facilities.

Gayle keeps all the children's personal details on her laptop. Once, Gayle found a parent going through a file she had left open on her laptop to find the children's addresses to invite them to her son's fourth birthday party. Gayle told her that she was not entitled to see any of her files, as they are totally confidential.

Recently, Gayle left her laptop on the train home from work, and as yet, it still has not been found. Luckily, she had backed up all her records of all the children who have attended her crèche since it began ten years ago to the cloud.

Outline Gayle's obligations under the Data Protection Acts, 1988–2018/
General Data Protection Regulation. **(25 marks)**

ABQ 2

Dalton Ltd

Sean Dalton set up his own chocolate-making business, Dalton Ltd, six years ago. He is thinking about selling his chocolates in international markets such as the UK and the USA, but he is unsure how to go about this. He buys his ingredients from suppliers all over the world and is spending a lot of money travelling to regular business meetings with these suppliers. He sends letters to all his customers every month to let them know about his special offers, but he is growing increasingly concerned at the environmental waste he is creating with all this paper. He is so busy that he can run out of ingredients before he realises it, and then it takes time for the suppliers to deliver to him after he places an order with them.

To address these issues, Sean wrote a seven-page memo to each employee, inviting them to make suggestions to improve the business. He wrote, "it behoves us all to ameliorate our endeavours". He gave the employees one day to reply with their ideas. Many employees did not bother replying as they are afraid of Sean and his tendency to get very defensive when challenged.

(A) Draft a short report outlining the main barriers to communications in Dalton Ltd. **(25 marks)**

(B) You are a communications consultant. Write a letter to Sean describing the benefits to the business of introducing Information and Communications Technology (ICT). **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Illustrate the importance of written communications in business. **(10 marks)**
2. Draft a report to the managing director of a business, explaining **four** factors to be considered when deciding on a method of communication. **(20 marks)**
3. Describe **four** barriers to effective communications. Analyse how each one may be overcome. **(25 marks)**
4. Draft an agenda and minutes for the AGM of a football club. **(25 marks)**
5. Evaluate the benefits of ICT for a business. Illustrate your answer with examples. **(25 marks)**
6. You are a communications consultant. Draft a letter to client of yours, explaining her rights as a data subject under the Data Protection Acts, 1988–2018/ General Data Protection Regulation. **(25 marks)**
7. Evaluate the role of the Data Protection Commissioner. **(20 marks)**
8. Outline the importance of the management skills when organising a Tidy Towns Committee in a local community. **(20 marks)**

UNIT 3

CHAPTER 8

MANAGEMENT ACTIVITIES

LEARNING OUTCOMES

In this chapter, we will look at:

- The job of a manager – what managers do every day.
- The activity of planning for the future success of the business.
- The activity of efficiently organising the business.
- The activity of making sure that the business achieves its goals.

We saw that, as part of her job, a manager must be able to lead, motivate and communicate. We will now look at the manager's job – the work that she actually does each day. The three main tasks she performs are called the **management activities** and they are planning, organising and controlling.

Management Activity of Planning

The management activity of planning is where the manager sets goals (objectives) for the business to achieve in the future and then comes up with business strategies to achieve those objectives.

If your objective is to get over 400 points in your Leaving Certificate, your strategy will be to study hard.

If a manager's objective is to increase the business's sales by 10% over the next 12 months, his strategy might be to advertise more and reduce the price of the product.

There are four main steps involved in planning:

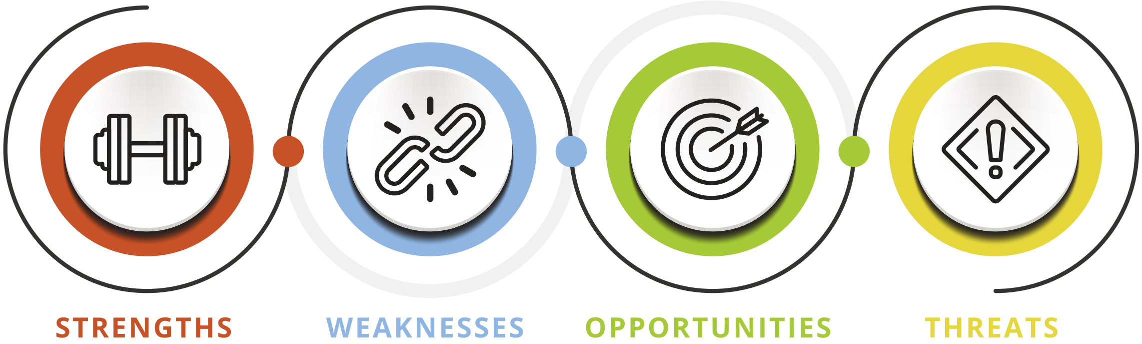
Step 1: SWOT Analysis

In the same way that you will not just pick a college course at random without thinking about it first, a manager does not set objectives for the business without careful consideration. You will think about the subjects you like in school and those you dislike and what career options a course might offer you. A manager does the same thing for the business.

Before the manager sets objectives for the business, he must firstly analyse the situation facing the business by conducting a SWOT analysis.

SWOT stands for **Strengths**, **Weaknesses**, **Opportunities** and **Threats.** It is where the manager critically examines the business by identifying those things that it is good at, called strengths, and those it is bad at, called weaknesses.

The manager also examines the competitive external environment the business faces in terms of opportunities (possibilities to make money) and threats (things that stop the business succeeding).



The manager uses the information from the SWOT analysis to set realistic goals for the business and to come up with successful strategies to help it achieve those goals.

	DEFINITION	EXAMPLES
Strengths	■ Strengths are internal factors a business is good at or valuable resources the business owns that will help it to succeed. ■ These strengths give the business an advantage over its competitors (competitive advantage).	■ Excellent staff ■ Up-to-date machines
Weaknesses	■ Weaknesses are internal factors a business does badly or resources the business lacks that could harm its chances of success. ■ These weaknesses put the business at a disadvantage when compared to its competitors.	■ Not enough money ■ Out-of-date equipment
Opportunities	■ Opportunities are external factors (something in the outside world) which have the potential to benefit the business. ■ They are something in the outside world that the business can avail of to make money or benefit from.	■ New countries join EU ■ Euro falling in value against other currencies
Threats	■ Threats are external factors (something in the outside world) that can have a negative impact on the business. ■ Threats can prevent the business from succeeding.	■ Competition from new countries joining EU ■ Pandemics, e.g. Covid-19

Business itself
- **Something positive** → **STRENGTH**
- **Something negative** → **WEAKNESS**

Outside world
- **Something positive** → **OPPORTUNITY**
- **Something negative** → **THREAT**

Example 1

You are the managing director of a company. You analyse the company and identify a number of issues. In the box below, state whether each issue is a strength or weakness of the company or an opportunity or threat for it.

	S/W/O/T?
1. The company has no money left in its bank account.	
2. The government is planning to increase taxes on employees' wages.	
3. Most of the equipment in the factory is old and needs to be replaced.	
4. The business is facing increased competition from South American companies.	
5. The EU is in negotiations with Turkey to allow it to join the EU.	
6. The government provides grants to help businesses to export.	
7. The company has a famous brand name.	
8. The government is planning to reduce the rate of value added tax.	
9. The company is run by excellent managers.	
10. The managers and employees of the company have a bad relationship.	

Example 2

If a manager in Ryanair were to do a SWOT analysis for the company, he might identify the following issues:

Strengths	1. The company has an excellent Group CEO, Michael O'Leary, whose innovative ideas have turned the airline into one of the most successful in the world. 2. It has a famous brand name with almost all consumers knowing what it stands for – low-cost flights.
Weaknesses	1. It has suffered from ongoing industrial relations problems (especially with its pilots). 2. It has a reputation for sometimes delivering poor customer service to passengers.
Opportunities	1. Launching a transatlantic service will increase the company's passenger numbers. 2. The company could take over another airline to expand.
Threats	1. It faces stiff competition from other budget airlines such as easyJet. 2. Increasing carbon taxes may harm the company's profitability.

Step 2: Set Objectives

The business should use the results of the SWOT analysis to help it set its objectives. Objectives are the **goals** that the business wants to achieve in the future.

When Aer Lingus did a SWOT analysis some years ago, a major weakness was that its costs were too high, and it was losing money. A major threat was competition from Ryanair. Aer Lingus then set itself the objective of cutting costs and becoming a low fares airline.

Step 3: Devise Strategies

Now that the business knows the objectives it is aiming to achieve, the next step is to come up with strategies to achieve these goals. Strategies are the plans of action that set out the steps that the business must take to achieve its objectives.

Aer Lingus came up with the strategy of making 2,000 employees redundant in order to achieve the goal of cutting costs.

In general, there are three basic strategies that any business can use to be successful:

1. **Low-cost Leadership Strategy**

   The business achieves its goal of being successful by keeping its costs as low as possible so that it can sell its products as cheaply as possible. Low prices help the business to attract price-conscious consumers who like a bargain. Thus, the business's sales and profits increase.

   Many businesses use this strategy. Among the most famous are Ryanair and Lidl.

2. **Differentiation Strategy**

   The business achieves its goal of being successful by making its products so different that they stand apart from the competition. Because customers appreciate this difference, they are willing to pay more for the business's products. Thus, the business increases revenue and profits.

   A common way to make consumers believe that a business's products are different from the competition is to use a brand name. Many people will pay more for a brand name product.

3. **Niche Strategy**

   The business achieves its goal of being successful by spotting a small group of customers with certain specific needs (a niche market) and making a product specifically tailored to meet their needs. These customers then flock to the business and its sales and profits increase.

   A business that specialises in bridal shoes is pursuing a niche strategy.

Step 4: Implement the Plan

The manager must now put the plan into action. He must break the plan down into manageable jobs and give each person in the business a job to do. It is important that he **communicates** the plan to all the employees in the organisation. This lets them know what they must do in order to achieve the business's objectives. It also ensures that the employees back the plan and try to make it work.

Aer Lingus implemented its plans by asking employees to volunteer for redundancy.

Types of Plans in Business

1. Mission

The mission is the overall **fundamental objective** of the business, to be achieved over its lifetime. It sets out the reasons for the existence of the business. Many businesses draw up a mission statement. This is a written document stating:

(a) What the business does *now*.

(b) What it plans to do in the *future*.

(c) The business's values and beliefs.

The mission gives the business a sense of direction and purpose.

> The mission statement of Boots chemists states: "Boots aims to be the place for health and beauty customers. We want to secure market leadership in the UK and build on our brands' growing success internationally."

2. Strategic Plan

A strategic plan is a **long-term plan** of action for the entire business, to be achieved over the next five years. Its aim is to ensure the long-term success of the business. It is written by the business's most senior managers. They take the business's mission and break it up into major long-term goals and strategies.

Example for an airline

Mission	→	Strategic Plan
To become the biggest airline in the world	→	To operate 20% of all flights from Europe to the US within the next 5 years

3. Tactical Plan

A tactical plan is a **short-term plan** for the business. Tactical plans are to be achieved within one year.

A tactical plan often just applies to a particular section/department of the business. It is written by the middle managers in the business. They take the business's strategic plans and break them up into smaller plans of action (tactical plans) that must be achieved if the business is to achieve its strategic plans.

Example for an airline

Mission	→	Strategic Plan	→	Tactical Plan
To become the biggest airline in the world	→	To operate 20% of all flights from Europe to the US within the next 5 years	→	To launch flights from Dublin to New York in the next 6 months

4. Contingency Plan

This is a **backup plan** to help a business cope with an emergency or an unforeseen event. It is sometimes called a "Plan B". It can also set out the procedure to be followed if expected results fail to happen. The aim of a contingency plan is to limit damage and prevent disruptions to the business, thereby preventing loss of profits and ensuring the continuity of the business.

Many Irish businesses had a contingency plan to deal with the potential consequences of Brexit (when the UK left the EU in January 2020). For example, Lidl Ireland build a massive warehouse in County Kildare so that it could stockpile goods to make sure it would not run out of products to sell in Ireland, in case Brexit caused delays in getting deliveries from suppliers in the UK.

Advantages of Planning

- **Planning helps secure capital:** When a business wants to raise finance, it must prove that it is capable of repaying it. A business plan (*see Chapter 17*) sets out exactly how the business is going to make, sell and finance its unique product. It is used to convince the investor to provide the funding needed by showing her that the business idea is a sound one that is very likely to be successful and will thus provide her with a decent return on her investment.

- **Planning motivates employees and managers:** Strategic and tactical plans set out goals for the employees and managers to achieve within a given time period. Everyone in the business has a target to aim for. When they achieve this target, they will feel a great sense of satisfaction. Thus, planning provides the drive and inspiration to motivate employees and managers to work hard for the business.
- **Planning helps to reduce risk and uncertainty:** When planning, the manager will sit down and try to anticipate problems that may be facing the business in the future. This enables the manager to take the necessary steps now to deal with and eradicate these future problems. Contingency plans, i.e. solving problems in advance of them happening, will help avoid business failure.
- **Planning guides the business to success:** Planning forces the manager to focus on the future of the business. It sets out objectives for the business to achieve in the future and the strategies by which they will be achieved. Thus, it is like a "map" for the manager to guide the business towards success.
- **Planning makes the business stronger:** When the manager conducts a SWOT analysis for the business, the second stage is to identify the business's weaknesses. In this way, a business will find out what it does badly or the things that it is lacking in, and steps can be taken to eliminate these and so become stronger and more successful.

  When a manager prepares the business's cash flow forecast (*see Chapter 13*), she will identify overspending (e.g. excessive wage costs) and take steps to eliminate it for good (e.g. through pay cuts).

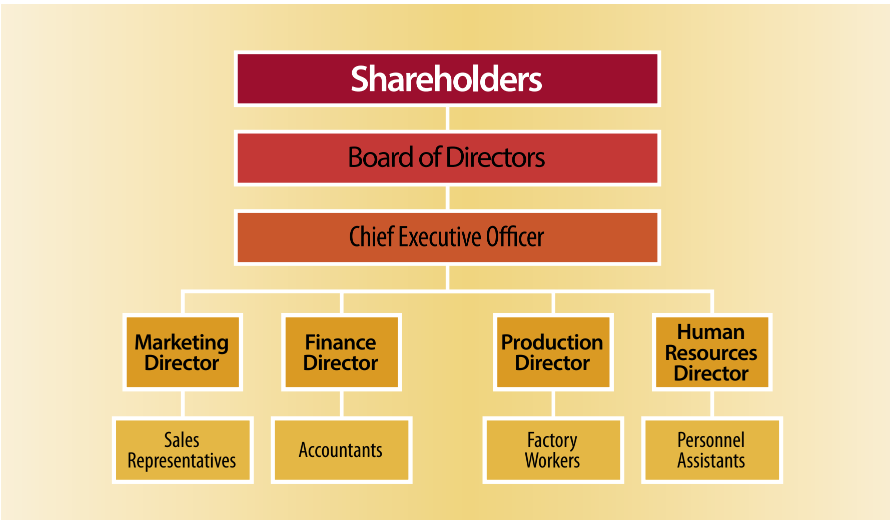
Management Activity of Organising

Organising involves arranging all the resources (employees, machines and money) of the business into the most suitable form to achieve its objectives. This means drawing up an **organisation structure**.

An organisation structure involves splitting all the work to be done in the business into departments and appointing people to be in charge of these departments, to run them and make sure that each department achieves its objectives. The main organisation structures are functional, product, geographic and matrix.

Functional Organisation Structure

This involves splitting the business up into its main jobs or functions and grouping employees with similar skill sets into departments. A person is put in charge of each functional department. That person is responsible for ensuring that the department achieves its objectives.

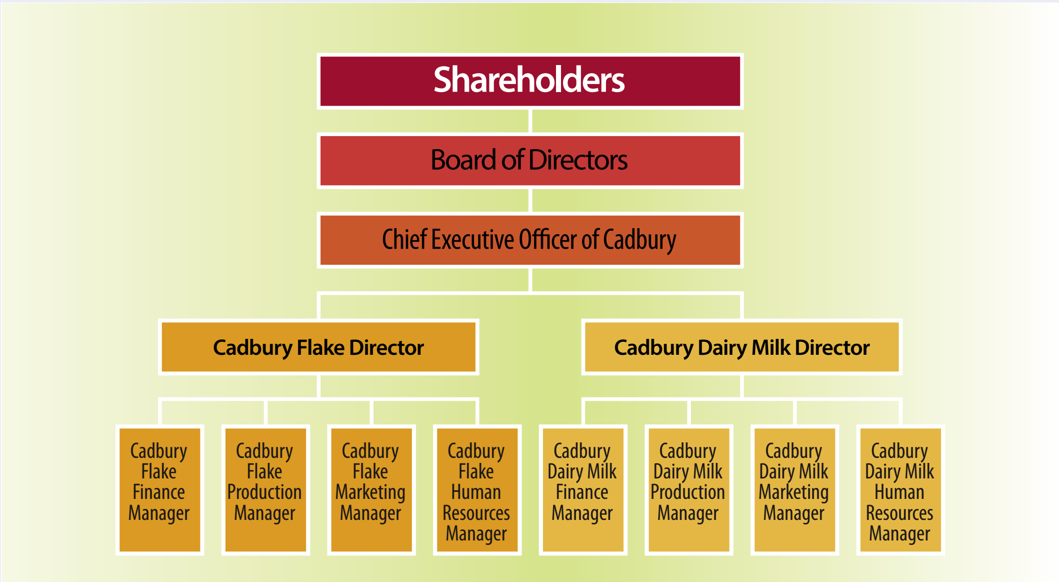


ADVANTAGES	DISADVANTAGES
1. **Specialisation** Because each department concentrates exclusively on one job, it becomes expert at it. This means that each department in the business does its job quickly and to a very high standard through constant practice. This leads to a very efficient and effective business.	1. **Isolation** People in each department know and care little about what goes on in other departments.
2. **Accountability** The director of each department is responsible for everything that goes on in it, so it is easy to identify the source of any errors and eradicate them quickly. For example, if there is an issue over poor quality products, this is the responsibility of the Production Director.	2. **Coordination** It can be difficult to get all the departments to pull together in the same direction.
3. **Clarity** Everyone knows who reports to whom and who is responsible for what jobs. This speeds up communication in the business and saves a lot of time.	

Product Organisation Structure

This involves splitting the business up according to the products it makes and grouping employees who work on a particular product into departments.

Example: Cadbury

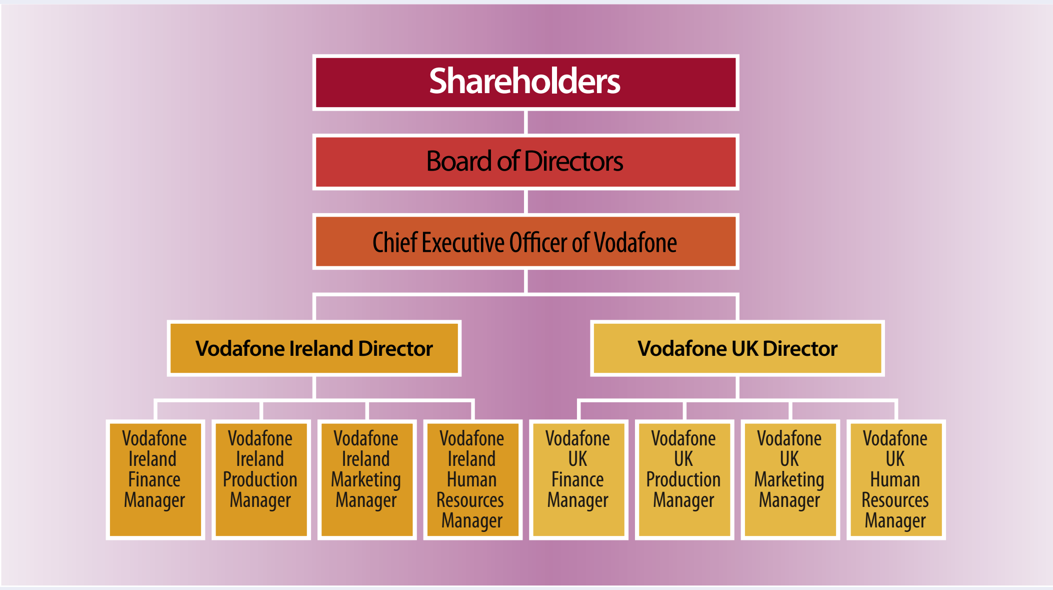


ADVANTAGES	DISADVANTAGES
1. **Focus on customer** Each department focuses on making one product only and so can concentrate on delivering the best possible product to customers.	1. **Duplication** The business ends up with a number of marketing departments, finance departments, etc. This can lead to wasteful higher costs.
2. **Competition** The healthy competition between departments to be the most successful benefits the business as all departments strive to be the best.	2. **Brand cannibalisation** Product directors may steal customers from other company products in a bid to be the most successful. For example, a company's website might take customers away from its shops. This results in no increase in sales for the business as a whole.
3. **Lower costs** Each product is run almost as a separate business and judged on the profits it makes, so there is greater incentive for every department to keep its costs to a minimum.	

Geographic Organisation Structure

This involves splitting the business up into the different regions it operates in and grouping employees who work in a particular region into departments.

Example: Vodafone



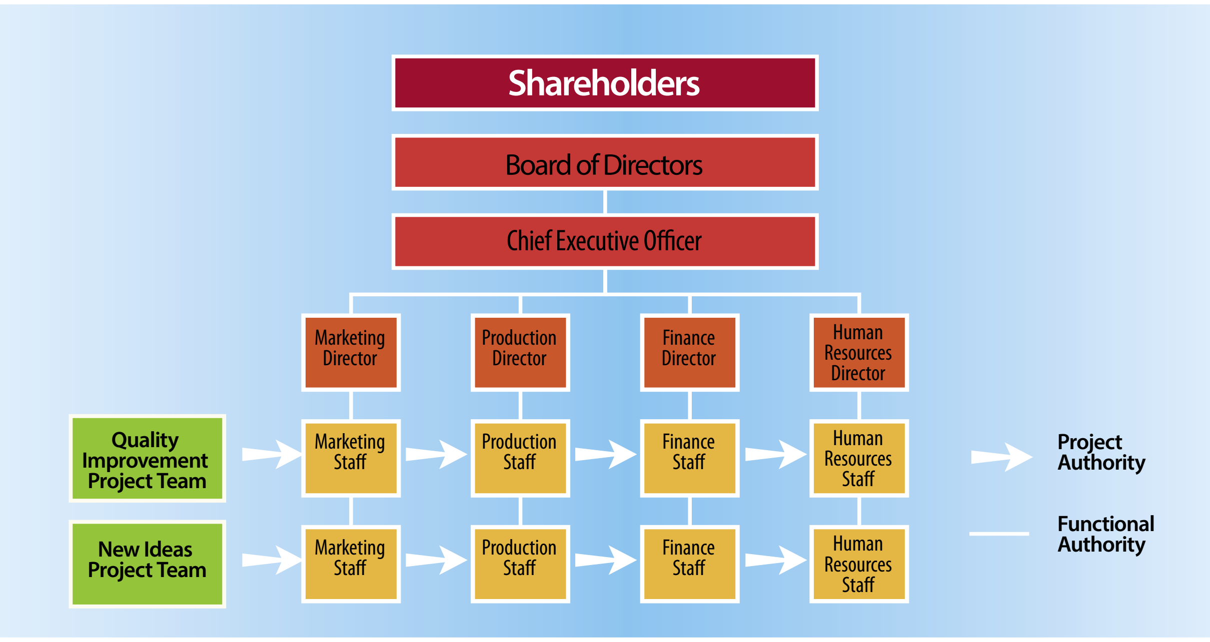
ADVANTAGES	DISADVANTAGES
1. **Serve local needs better** Local directors know what their local customers want and need and can therefore give them exactly what they want. This leads to higher sales for the business.	1. **Duplication** The business ends up with a number of marketing departments, finance departments, etc. This can lead to wasteful higher costs.
2. **Competition** The healthy competition between regional departments to be the most successful benefits the business as they all strive to outdo the others.	2. **Conflict** Conflict can arise between senior company managers and local managers over who knows best for the local business.
3. **Lower costs** Each geographical department is run almost as a separate business and judged on the profits it makes so there is greater incentive for it to keep costs to a minimum.	

Matrix Organisation Structure

This structure combines two types of organisation structure:

1. functional organisation structure; and
2. project team structure.

It is used when the business is involved in major **temporary** projects that require expertise from all the business's departments (such as the launch of a new product, for example). Employees are temporarily removed from their normal job and invited to work on a project team. They report to the project team leader when they are working on the project. When doing their normal work, they report to their normal functional department manager.



ADVANTAGES	DISADVANTAGES
1. **Better coordination** The project team is made up of people from different departments in the business. In this way, employees from the different parts of the business mix with each other on a daily basis. Mixing in this way helps them to respect each other and understand the important role played by the others in the business. They learn to appreciate that they are "all in it together" and so the different departments pull together in the same direction to make the business a success.	1. **Two bosses** Employees on the project team report to two bosses – their functional boss when they are doing their regular job and their project boss. When both give contradictory orders, this can cause confusion and conflict and employees may become stressed.
2. **Better ideas** When a decision has to be made or the business needs new ideas, the members in a team can brainstorm with each other. Each team member brings different expertise and perspectives to the team's discussions. Each person can build on the ideas put forward by others. Therefore, a team can come up with better solutions and more creative ideas for the business that an individual working alone would not think of on his own.	2. **Increased cost** The business will have to pay to train managers to become project managers. There will also be extra secretarial and administrative costs.
3. **Develops employees** Working as part of a team exposes an employee to the practices and work ethic of possibly more experienced workers. This can help him to learn more about his job and more quickly than trying to learn on his own or through instruction. It helps him to become a better worker which ultimately benefits the business.	3. **Slow decision-making** Consulting everyone and listening to all the different opinions on the project team can take time. This will slow down the decision-making process.

Features of Organisation Structures

The four organisation structures we have looked at all have a number of common features:

1. Chain of Command

- The chain of command is the unbroken line of authority that links all individuals in an organisation and specifies who reports to whom.
- People above you in the chain have authority over you.

- You have authority over people below you in the chain.
- You have no authority over people on the same level as you.
- The chain also shows the official channel of communication in the business.
- The chain of command involves a basic rule, called "unity of command" – this means that each employee is held accountable to only one supervisor/manager.

2. Span of Control

The span of control is the number of employees that report directly to a manager. Or to put it another way, it is the number of employees that a manager can effectively supervise. In the diagram below, the CEO's span of control is four.

A manager's span of control can be

(a) **Wide** (this means that he can supervise a lot of employees effectively at the same time) or

(b) **Narrow** (this means that he can only supervise a few employees effectively at the same time)

There is no one correct span of control. A manager's span of control depends on the following:

The manager's experience and ability	If the manager is not very experienced as a manager, his span of control will be narrow because he will not know enough to properly supervise many employees.
The employees' experience and ability	If the employees are not very experienced and do not really know what they are doing, the manager's span of control will be narrow because he will have to watch them very closely.
The type of work to be done	If the work the employees do is complicated and dangerous, the manager will have to keep a close eye on them and so his span of control will be narrow.
The location of employees	If the employees are located in different parts all over the factory, it will be hard for the manager to get around to all of them and so his span of control will be narrow.
Outside pressure on the manager	If the manager is under a lot of pressure outside work, he will not be able to concentrate as much on his job and his span of control will be narrow.

3. Line Organisation

Line departments are those that are directly responsible for making and selling the business's products, such as Production, Marketing, etc.

4. Staff Organisation

- This consists of all the employees in the business that provide expert advice to the line departments. Examples of staff departments include the Information Technology department and the Legal Department.
- While they do not directly make and sell the business's products, they help all those departments that do. For example, the legal department will help the marketing department if it runs into difficulties with the Competition and Consumer Protection Commission (CCPC) over the business's advertisements.

Advantages of Organising

- **Organising helps solve problems quickly:** By drawing up a clear organisation structure showing every person in the business what their job is and who they report to, an employee, and indeed a customer, knows exactly who to go to, to deal with a certain issue. Therefore, organising ensures that problems are solved quickly.
- **Organising improves efficiency:** In a functional organisation structure, the business is split up into jobs to be done. Instead of doing lots of different types of work and not being especially good at any of them, employees specialise in one type of job. This way, they become better and faster at it. Therefore, organising leads to better quality work.
- **Organising helps the business to cope with change:** In a matrix organisation structure, the business sets up special project teams consisting of workers from each department, alongside its regular functional structure. These teams can be set up quickly to solve any urgent issues facing the business (such as developing new product ideas), while the normal work of the business continues.
- **Organising minimises waste:** The proper assignment of jobs through organising avoids overlapping of work and also makes possible the best use of resources (money, machines and people). Avoiding duplication of work helps to minimise the wastage of resources and efforts.

Management Activity of Controlling

The management activity of controlling involves the manager making sure that the business **stays on target** to achieve the objectives that were set during planning. The manager checks up periodically on the business's performance to see whether it is off target or on target to achieve its goals. If the business is off target, the manager can take corrective action to get it back on target.

There are four main **steps** in controlling:

		Simple example	Business example
1	Set goals for the business to achieve.	A student sets himself the goal of 75% in Leaving Cert Business.	A manager sets a goal of a 10% increase in sales over the next 12 months.
2	Measure the business's actual performance regularly.	In his 5th year Christmas exam, the student gets 35%.	After the first month, sales have fallen by 2%.
3	Measure any deviations (whether the business is on target or off target) and investigate them.	The student now realises he is off target but there is plenty of time to change.	The manager now realises the business is off target but there is plenty of time to change.
4	Take corrective action to ensure that the business stays on target to achieve its goals.	The student needs to: ■ Study harder. ■ Do homework. ■ Pay more attention.	The manager needs to: ■ Advertise more. ■ Reduce prices.

In business, a manager will control a number of different things, including the following:

1. Stock control
2. Quality control
3. Credit control
4. Financial control

1. Stock Control

The aim of stock control is to make sure that the business has the optimum level of stock in the shop or factory at all times. The optimum level means having enough to meet the demands of customers while at the same time keeping stock to a minimum.

To control the amount of stock it keeps, the business has to set stock levels:

	Definition	Helps to prevent
Maximum stock level	The business should never have more than this amount in stock.	Too much stock
Minimum stock level	The business should never have less than this amount in stock.	Too little stock
Reorder point	When stock falls to this level, it is time to put in a new order.	Too little stock
Reorder quantity	This is the exact amount of stock you should buy each time you make a purchase.	Too much stock

Just-in-Time

Another technique to control stock is called just-in-time. The aim of this system is to keep the minimum amount of stock possible in the factory while at the same time never running out of stock.

It involves buying from a supplier who delivers **exactly the right amount of perfectly made** stock at **exactly the time** when it is going to be used by the business. Materials come into the factory only when they are needed (not before, not after) and are then immediately used to make the product. When the product is finished, it is immediately shipped out to the customer.

In this way the business does not have to hold *any* stock.

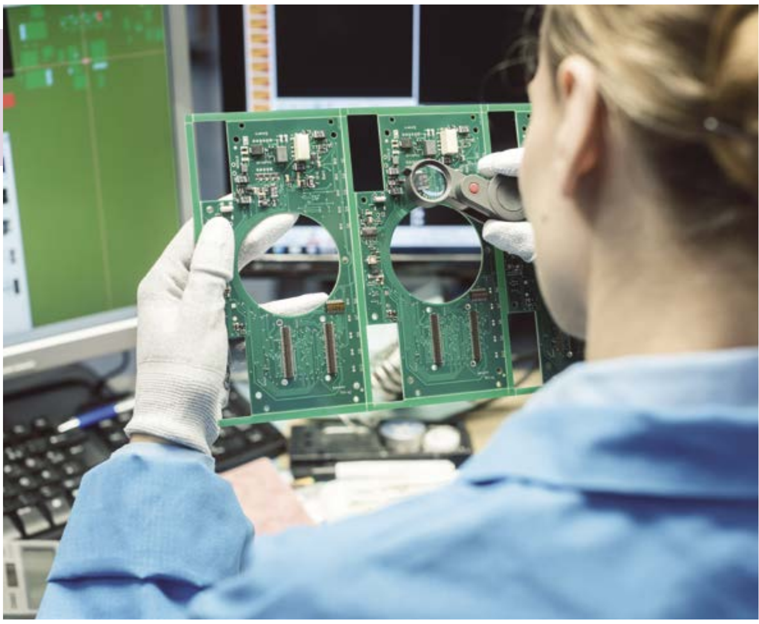
Advantages of Stock Control

- Proper stock control ensures the business does not carry excessive amounts of stock. This helps it to manage its working capital (*see later in Chapter 11*) effectively by ensuring that it does not tie up too much cash in stock.
- Good stock control leads to increased customer satisfaction. The business will always have the right amount of stock in the shop. Customers will never call to the shop and be unable to find what they want. This helps to improve the business's sales and reputation.
- Lower amounts of stock will make it easier to spot and eradicate theft by staff, customers and so on.
- If the business keeps the right amount of stock, it will not lose money because of deterioration (stock goes off) and obsolescence (stock goes out of fashion) and excessive storage costs (security costs, insurance costs, etc.).

2. Quality Control

Quality control is the process of checking the business's products to make sure that their quality meets very high standards set by the business. It aims to ensure that the products meet and even surpass the expectations of customers. There are various ways that a business can control its quality, including:

1. Physical inspection
2. Quality circles
3. ISO 9000 awards



Physical Inspection

To make sure that the business's products meet the quality standard required by the business, a trained inspector **physically examines** them before they leave the factory. Products that meet the standards are **passed** and shipped out to the shops. Products that do not meet the quality standards are **rejected** by the inspector and sent back to the factory to be fixed or scrapped.

An inspector inspects *every* single product only when perfect quality is needed.

In Louis Vuitton, inspectors examine every single product before it leaves the factory to ensure that the company lives up to its image as one of the best luxury goods producers in the world. A Louis Vuitton bag or wallet will undergo more than 100 different stages of production and testing before it is ready to be sold.

Otherwise, the inspector uses a method called **sampling**. This works as follows:

	STEP	EXAMPLE
1	The factory makes a batch of the product.	Mars makes 10,000 Mars bars in a batch.
2	The inspector picks out a small amount (sample) at random and tests them to see whether they meet the quality standard set by the business.	The inspector tastes ten of the bars in the batch to make sure that no more than one out of ten is imperfect.
3	If the sample passes, the inspector passes the whole batch.	If at least nine of these ten are perfect, the inspector approves the whole batch of 10,000 and they are sent out to the shops.
4	If the sample fails, the inspector fails the whole batch.	If two or more of these ten are defective, the inspector rejects the whole batch of 10,000. They are all sent back to the factory to be scrapped.

Quality Circles

A quality circle is a way to control quality in a business that uses the employees to spot quality problems in the factory and to come up with suggestions to solve these problems.

A small group of **employees volunteer** for the quality circle. They meet regularly to **discuss** quality problems in the factory and to suggest solutions to them. The idea is that employees on the factory floor are best placed to know the business's quality problems and how to solve them.

Quality circles operate as follows:

1. The employees meet and raise quality problems they have found.
2. They discuss the problem and recommend a solution to the manager. The manager makes the decision whether to accept their recommendation.
3. If the manager decides to go ahead with the solution, the members of the quality circle help to implement it.

ISO 9000

To make sure that its products are of the highest quality standards, the business applies for the ISO 9000 award. This is an **internationally recognised award** that is given only to businesses that can consistently prove to an **independent** team of inspectors that their products meet the highest quality standards.

A business applies for the award as follows:

	STEP
1	The business applies to the ISO and is sent a questionnaire asking very detailed questions about its quality.
2	The business fills in the questionnaire and sends it back to the ISO.
3	The ISO considers the business's answers and sends back a list of changes that the business must make to improve its quality if it wants to have the highest quality standards in the world.
4	When these changes have been made, the ISO sends a team of inspectors to the business. It inspects every aspect of the business's quality to make sure that it meets their strict ISO quality standards. If it does, the business is awarded the ISO 9000 mark.
5	After that, the inspectors can call out to the business at any time to carry out a surprise inspection to make sure that the business is still achieving top quality.

Advantages of Quality Control

- Quality control ensures that the business's products are consistently of the highest standard. Customers are happy with the products and so they engage in repeat purchasing (continue to buy them). This leads to an increase in **sales** for the business.
- Improved quality brought about by quality control leads to **lower costs** because the business does not waste money on repairing faulty products or giving refunds on faulty products.
- If a business receives a quality award such as ISO 9000, this can help the business with its **marketing**. It helps to arouse customers' interest in the product, even if they have never heard of it, because the ISO 9000 award reassures them that it is a brand of quality that can be trusted.

3. Credit Control

The aim of credit control is to make sure that all the business's **customers** (debtors) **pay their bills** in full and on time. It seeks to eliminate bad debts (customers who go bankrupt and do not pay their bills) and to make late-paying customers pay their bills now. It involves these steps:

Step 1 The business must set an overall **limit** for the maximum amount of credit it will give all its customers. This number must be an amount of money that the business can afford to lose. This ensures that it never loses more than this amount.

Step 2 The business vets each customer carefully to see whether he can be trusted with credit. This can be done by running a **credit check** on the customer through the Central Credit Register (CCR). The CCR is a national database, run by the Central Bank of Ireland, that provides lenders with lots of information about a customer's credit. The business can also ask him in for an interview, ask for references from his bank and/or other businesses he has dealt with in the past.

Step 3 When customers use their credit, their bills (called **invoices**) should be sent out to them immediately, telling them how much they owe and the latest deadline by which they must pay this amount. They should be offered discounts (such as 5% off the bill if they pay within 7 days) if they pay early to encourage them to pay quickly.

Step 4 The business must have a **collection procedure** for getting money from customers who will not pay. This can involve ringing them up and calling out to them to remind them that they have not yet paid their bill and insisting on immediate payment.

If this does not work, the business can start adding interest to their outstanding bill, in accordance with the law. This might motivate customers to pay as the longer they persist in not paying, the more they will owe. Ultimately, the business can take them to court to get a judge to order them to hand over the money they owe the business.

Advantages of Credit Control

- Credit control ensures that a business receives the cash from its customers that it needs to pay its bills on time. This helps to ensure that the business will not go bankrupt.
- Credit control reduces the business's costs. It avoids losing money on bad debts.
- Credit control helps a business to choose the right customers to offer credit to, through proper vetting. It ensures the business maintains and increases sales by being able to offer credit to customers, while at the same time keeping losses from such credit to a minimum.

> Most Irish banks did not employ good credit control during the Celtic Tiger years and that is why so many of them required a government bailout.

4. Financial Control

The aim of financial control is to make sure that the business is profitable and always has enough money available to pay its bills. If a business cannot pay its bills, it will go bankrupt.

- The business can control its finances by drawing up a **budget** for each department, showing the amount of money that it will be allowed to spend in the year. No department should be allowed spend more than provided for in its budget. The manager should also keep a close eye on all costs in the business to ensure that they are minimised.
- The manager can compare **cash flow forecasts** (*see Chapter 13*) with actual cash flows and take corrective action when necessary, such as making cutbacks to ensure the business has enough cash to pay its bills.
- The manager can also use **ratio analysis** (*see Chapter 11*) by comparing the business's actual ratios with its budgeted ratios to see if it is on target or off target. If it is off target, it can take the necessary steps to get back on target.

Advantages of Controlling

- **Controlling makes sure that the business achieves its objectives:** The purpose of controlling is to periodically check up on the progress of the business to ensure that it is on target to achieve the goals set out in planning. If the business is off target, steps can be taken to correct this and get the business back on target to achieve its goals.
- **Controlling reduces the business's costs:** An effective quality control programme (such as ISO 9000) ensures that the business's products are of excellent quality. If the business's products are perfect, the business will enjoy lower costs, as money is not wasted on repairing faulty goods or giving dissatisfied customers a refund.
- **Controlling the business improves its cash flow:** An effective credit control policy (such as offering discounts for speedy payment) ensures that debtors pay their accounts on time. This means that the business receives cash in plenty of time before it has to hand it out to pay its bills. Therefore, controlling improves a business's cash flow and reduces the risk of bankruptcy caused by an inability to pay bills.
- **Controlling increases a business's sales and profits:** Quality control ensures that the business's products are of top quality. Stock control ensures that the business always has enough stock on the shelves to meet customers' demands. When customers know that a certain business can always guarantee an availability of excellent products, they will shop there. Therefore, controlling leads to higher sales and profits for the business.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List the **three** management activities.
2. Define the management activity of planning.
3. Explain what is meant by "objectives" and give one example of an objective in business.
4. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Objectives	(a) Things that a business does well
2. Strengths	(b) Methods of achieving goals
3. Weaknesses	(c) External factors that can prevent a business from succeeding
4. Opportunities	(d) Arranging a business' resources in the best way to achieve its goals
5. Threats	(e) Goals that a business wants to achieve
6. Strategies	(f) External factors that a business can use to succeed
	(g) Things that a business does badly

1	2	3	4	5	6

5. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A strategic plan is a short-term plan.	
B	A mission sets out the overall purpose of a business.	
C	A tactical plan takes more than five years to achieve.	
D	A contingency plan is a backup plan.	
E	Lidl, ALDI and Ryanair follow a low-cost leadership strategy.	

6. Name **one** organisation structure. Draw a chart of that structure.
7. Explain the term "span of control".
8. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A functional organisation structure divides the business into different geographic locations.	
B	A matrix organisation structure is a combination of a functional structure and project teams.	
C	Staff departments provide advice to the other departments in the business.	
D	The less experienced a manager is, the narrower her span of control will be.	
E	A geographic organisation structure splits the business up into different products.	

9. List **three** reasons why it is bad for a business to have too much stock.
10. Outline **two** advantages of quality control for a business.
11. Distinguish between "credit control" and "quality control".

EXAM SECTION 2 – LONG QUESTIONS

1. Name **two** types of planning and explain **one** of them. **(20 marks)**
2. What is meant by the term "mission statement"? **(10 marks)**
3. Describe **three** benefits of planning for a business. **(15 marks)**
4. Distinguish between "product organisation structure" and "geographic organisation structure". **(10 marks)**
5. Distinguish between a "line department" and a "staff department" in a business. **(10 marks)**
6. What is meant by the term "span of control"? Outline **three** factors that affect a manager's span of control. **(25 marks)**
7. Describe **three** benefits of organising for a business. **(15 marks)**
8. Describe **three** benefits for a business of good stock control. **(15 marks)**
9. Name **three** quality control techniques available to a business and explain one of them. **(25 marks)**
10. Define "credit control". **(10 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "objectives" and "strategies".
2. Illustrate the difference between a "strategic plan" and a "tactical plan".
3. The following table shows three types of plans and four statements.
For each statement, tick (✓) the type of plan that is most likely to match that statement.

	Mission	Strategic plan	Tactical plan
To be achieved in under a year			
Sets out the fundamental objective of a business			
Major plans to be achieved in the next five years			
Generally applies to one section of the business			

4. Define the management activity of "organising".
5. Outline **two** implications of a business using a functional organisation structure.
6. Draw and label a diagram of a matrix organisation structure.
7. Explain the term "span of control". Identify how two different factors can affect a manager's span of control.
8. Describe **three** types of management control needed in business.
9. Outline **two** problems that could arise in a business which has too much stock.
10. Outline **three** advantages of quality circles for a business.
11. Explain **two** different ways a manager can ensure good credit control in his business.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Croagh Ltd

Helen Meskell set up her office furniture making business, Croagh Ltd, in her hometown twelve years ago. The business has done well and enjoys a reputation for quality workmanship. However, there have been a number of industrial relations problems in recent years and Helen's employees have engaged in industrial action. Helen has heard that a rival office furniture business is to open in the new industrial estate planned for the town. This new industrial estate will include over one hundred new offices for new businesses.

Recently, Helen has noticed several problems that were not a feature of the business in the past. Some customers have cancelled orders because they were able to buy better quality furniture at a lower price online. Some of her new office desk designs are not selling as well as Helen had hoped and are piling up in the warehouse. She is especially worried that some of her customers are taking longer and longer to pay their bills.

(A) Explain what is meant by the term SWOT analysis. Conduct a SWOT analysis for Helen's business. **(30 marks)**

(B) Recommend, with reasons, **three** types of management controls needed in Helen's business. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Conduct a SWOT analysis for a business of your choice.
Include **two** points under each heading. **(20 marks)**
2. Explain **two** types of planning and analyse their impact on a business. **(20 marks)**

3. Describe the benefits and challenges for a business of using a functional organisation structure. **(20 marks)**
4. Discuss the factors that affect a manager's span of control. **(20 marks)**
5. Explain what is meant by a "product organisation structure" and outline its importance to a business. **(20 marks)**
6. Explain what is meant by a "matrix organisation structure" and analyse the contribution it can make to the successful running of a business. **(20 marks)**
7. Explain the term "stock control" and describe a method of stock control. **(15 marks)**
8. Explain the term "quality control" and analyse the contribution it can make to the successful running of a business. **(20 marks)**
9. Explain the term "credit control" and describe a method of credit control. **(15 marks)**
10. Explain the term "financial control" and describe a method of financial control. **(15 marks)**
11. Which of the three management activities is the most important? Explain your answer with reasons and examples. **(25 marks)**

NOTES

UNIT 4

CHAPTER 9

HUMAN RESOURCE MANAGEMENT

LEARNING OUTCOMES

In this chapter, we will look at the job of the Human Resources manager in a business:

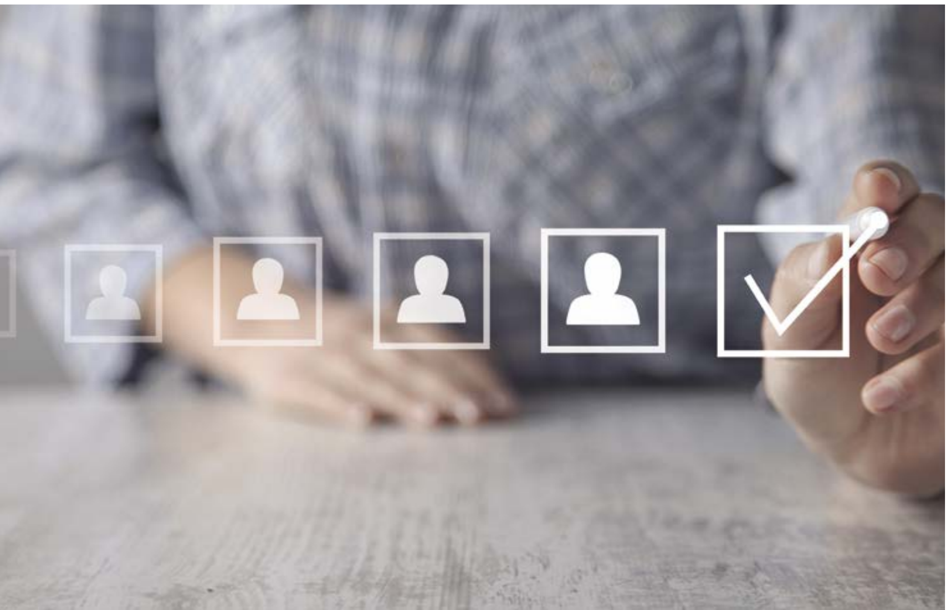
- Making sure that the business has the right number of employees.
- Finding people to apply for job vacancies and choosing the best person for the job.
- Training employees to do their jobs well.
- Checking up on employees.
- Deciding on how to best pay employees to encourage them to work hard.
- Ensuring a good working relationship between managers and employees.

Human Resource Management (HRM) involves **managing the employees** (human resources) in a business. Its main purpose is to ensure that the business finds and keeps excellent employees and makes the best possible use of them.

The functions of the Human Resources (HR) manager are as follows:

1. Manpower planning
2. Recruitment and selection
3. Training and development
4. Performance appraisal
5. Pay and rewards
6. Employer/employee relationship

Manpower Planning



Manpower planning involves the HR manager ensuring that the business has exactly the right number of workers with the required skills to do all the jobs needed in the business, so that it can achieve its objectives. She compares how many workers the business needs in future with the numbers currently employed and then recruits or makes redundancies as needed.

The HR manager does this in three steps as follows:

STEPS		EXAMPLES	
1	**Forecast future demand** The HR manager must estimate how many employees and what skills the business will need in the future.	Objective: From next July, an airline plans to operate 1,000 flights. Each flight requires two pilots, so from July, the airline needs 2,000 pilots.	Objective: From next May, Maurice plans to increase the number of self-service checkouts in his supermarket. He estimates that he will then need only ten employees.
2	**Calculate existing supply** The HR manager must conduct an audit of the existing employees who work in the business (including numbers, age and skills) to see how many workers the business has.	The number of pilots currently employed in the airline is 1,700.	The number of workers currently employed in Maurice's supermarket is 25.
3	**Decide on and execute a strategy** If demand exceeds supply (i.e., if the business needs more employees than it has), the strategy is to **recruit** more employees. If supply exceeds demand (i.e., the business has too many workers), the strategy is to make some of the existing employees **redundant**.	Strategy: The airline must recruit 300 pilots.	Strategy: Maurice must make 15 employees redundant.

Benefits of Manpower Planning

- Manpower planning avoids the problem of the business being **understaffed**. Too few workers might result in products not getting made on time, leading to unhappy customers and lower sales.
- It also avoids the problem of being **overstaffed**. If the manager sees that the business has too many workers, she can make the excess redundant. Thus, manpower planning helps the business to reduce its wages bill.

Please note that Manpower Planning can also be used as a "Business Plan Type" in Chapter 8.

Recruitment and Selection

Recruitment means **finding suitable people** for a job vacancy in the business and persuading them to apply. This involves firstly preparing a job description to establish the work that the vacancy entails and a person specification outlining the type of person needed to do the job.

The HR manager must then find this person.

There are two methods. Internal recruitment means finding a candidate from among the business's existing workers. External recruitment means finding a candidate from outside the business by advertising the position.

Selection means **choosing the best applicant** for the vacancy from all those who applied. The first thing the HR manager will do is go through all the applications received and screen out those who do not meet the requirements of the job description and/or person specification.

The manager can then use a variety of techniques to choose from among the remaining candidates, including tests, interviews and checking references. The job is offered to the best candidate.

There are eight steps in the recruitment and selection process, as follows:

Step 1: Prepare a Job Description

The first step in recruitment is *not* to put an advertisement in a newspaper! The first step requires the HR manager to think very carefully about exactly what work the business needs doing. She draws up a job description to establish this.

A job description is a written document that sets out the **responsibilities** of the job and the **duties** to be performed. It sets out clearly where the job fits into the organisation structure and who the employee will report to.

Here is a sample job description for a firm looking for a new office manager.

Job Description

Job Title:	Office Manager
Reporting To:	Chief Financial Officer
Purpose of Position:	To manage all aspects of the office
Salary:	€59,000 per annum
Duties and Responsibilities:	1. Responsible for organising staff rota
	2. Responsible for dealing with customer queries by phone and letter
	3. Responsible for ensuring all bills are paid on time

Step 2: Prepare a Person Specification

Once the HR manager has established the tasks the business needs the new worker to do, he must now think about the kind of person the business would like to hire. To help him, he will prepare a person specification.

A person specification is a written document that sets out what is expected of the ideal candidate in order to fulfil the requirements of the position. It describes the qualifications, skills, experience and personal characteristics the candidate must possess. Here is a sample person specification for a firm looking for a new office manager.

Person Specification

The ideal candidate will have the following:

Academic Qualifications:	Leaving Certificate
Experience:	Previous management experience desirable
Characteristics:	Confident, motivated person
Skills:	1. Good communication and organisation skills
	2. Ability to work well as part of a team
	3. IT skills essential

The HR manager may then use the information from the job description and person specification to draft an advertisement for the vacancy. Here is a sample advertisement drawn up for a firm looking for a new office manager.

OFFICE MANAGER REQUIRED

Murray's Department Store requires an Office Manager for immediate start. The job involves managing the office in the store.

The ideal candidate is a confident, motivated person with good communication and organisation skills and with the ability to work well as part of a team. Previous management experience is desirable and IT skills are essential for this position.

Salary: €59,000 per annum

Apply with CV and letter of application quoting reference JOB/2026 to:

Margaret Murphy, *Human Resources Manager*
Murray's Department Store
Dublin 9

Closing date for applications is 1st July 2026.

*The store is an equal opportunities employer. **

***Note:** "Equal opportunities employer" means that the business will judge all candidates fairly on their merits alone. It will not discriminate against them in any way based on their gender, family status, marital status, age, disability, sexuality, race, religion or because they are a member of the Traveller community.

Step 3: Encourage Suitable Candidates to Apply

Now that the HR manager knows the job to be done and the type of person needed to do it, she must find a number of suitable candidates to apply for the job.

There are two main sources of recruitment – **internal** and **external**.

EXTERNAL RECRUITMENT	
Definition	External recruitment means finding someone who does not already work in the business, (from outside the business) to apply for the job.
Sources	1. **Advertise** the job vacancy in the media (newspapers, radio, online platforms, etc.). 2. Use the services of a **recruitment agency**. This is a specialist firm that will find suitable applicants for the Human Resources manager in return for a fee. An example of a recruitment agency is Hays plc. 3. The Department of Social Protection provides a service called **Jobs Ireland** to help employers recruit, whereby a business can advertise a vacancy online to jobseekers on www.jobsireland.ie. It allows the business to search through the CVs of jobseekers to find people with the qualifications it requires. 4. **Headhunting**: The Human Resources manager approaches people who work for rival businesses and invites them to apply for the vacancy.
Advantages	1. A person from outside the business will have experiences in other businesses where she may have learned new and better ways to do things. Therefore, she can bring fresh perspective and new ideas that will help the business to improve and prosper. 2. By opening the vacancy up to a wider range of candidates (not just current employees), the business increases its chances of finding an excellent candidate for the job. 3. Hiring an outsider may cause less jealousy and resentment among the staff than promoting someone who already works for the business. He has no existing relationships with the employees in the business and therefore no "favourites" or "enemies".

INTERNAL RECRUITMENT	
Definition	Internal recruitment means finding someone to fill a vacancy from among those who already work inside the business.
Sources	1. **Promotion:** A current employee who has done a good job so far might be able for a more challenging position and could be offered a higher-level job. 2. **Demotion:** A current employee who is struggling with her job could be asked to move downwards to fill a vacancy at a lower level. 3. **Transfer:** An employee in one department could be moved to another department to do the same job there.

Advantages	**1.** Existing employees know the business, how it works and everybody in it, so they will not take as long as an outsider to settle into the role. There will be no need for induction training. **2.** The manager has seen the employee's work first-hand and knows exactly how good an employee she is. **3.** Internal recruitment provides a career path for employees and motivates them to work harder to get a promotion. **4.** It is cheaper and quicker than external recruitment. There is no need for expensive ads in newspapers. A sign on the staff notice board, an email or memo to all staff is enough.

The HR manager must let applicants know how to apply for the job. The most common methods of application used in Ireland are the curriculum vitae (CV), the application form and the covering letter.

Curriculum Vitae (CV)

A curriculum vitae is a document prepared by an applicant for a job in which she summarises her qualifications and work experience. It is used to obtain an interview when seeking a job.

It contains details such as the applicant's:

1. Name
2. Address
3. Education
4. Work experience
5. Hobbies
6. References

Here is an example of a CV:

Curriculum Vitae

Name:	Prisha Bhatia	
Address:	12 Knock Street, Patrickstown, Co. Leitrim	
Education:	Clonard Secondary School. Patrickstown, Co Leitrim	
	Leaving Certificate 2022:	
	I passed 7 subjects including Higher Level Business, French and Irish.	
Work Experience:	Noah's Café, Patrickstown: July 2022 – Present	
	I work here as a manager.	
	I am responsible for preparing staff rotas and staff wages.	
Hobbies:	I enjoy swimming, football and music.	
	I play for the Patrickstown Ladies GAA football team.	
References:	Mr Noah Walsh	Ms Caitlin Canavan
	Owner	Principal
	Noah's Café	Clonard Secondary School
	Main Street	Millbrook Avenue
	Patrickstown	Patrickstown
Signed:	Prisha Bhatia PRISHA BHATIA	Date: 17th June 2026

Application Form

An application form is a document printed by an employer asking a series of personal questions regarding education, experience, hobbies and so on from applicants for a job vacancy in the business. The candidate answers the questions in the spaces provided and sends the form back to the business to apply for the vacancy.

Many HR managers prefer to use their own application form rather than CVs because they can write very specific questions and thus get the answers, they need to help them decide better who to call for interview.

Application Form

Name:

Address:

Education

Leaving Certificate | Year Taken

Subject	Grade

Work Experience

Employer	Dates employed there	Main duties and responsibilities	Reason for Leaving

What attracts you to this job? What strengths can you bring to it?

Describe a situation when you were in a position of leadership and what you achieved in that position.

How would your colleagues describe you in five words?

Give the names and addresses of three people willing to act as referee for you.
One of them must be your current or most recent employer.

1.

2.

3.

Signed: Date:

Letter of Application/Covering Letter

Regardless of whether the employer asks for a CV or an application form or both, candidates should always submit a covering letter with their application. It is a letter in which the applicant introduces herself, states the job she is applying for and outlines a brief summary of why she wants it and the qualities she can bring to the job.

Here is the covering letter that Prisha Bhatia sent with her CV when she applied for the manager's job in Murray's department store:

12 Knock Street
Patrickstown
Co. Leitrim

17th June 2026

Your ref: JOB/2026

Ms Margaret Murphy
Human Resources Manager
Murray's Department Store
Dublin 9

Re: Vacancy for Office Manager

Dear Ms Murphy,

I am writing to you to apply for the position of office manager in your company which I saw advertised in the *Irish Times* newspaper. This is an ideal job for me because I am currently employed as a manager in a local café.

As you can see from my CV, I completed my Leaving Certificate in 2022 and obtained good grades in all my subjects, especially Business, French and Irish. I have four years' experience working in Noah's Café as the manager. I am responsible for organising staff rotas and the payment of staff wages.

As an office manager in your company, I would bring previous management experience and excellent organisation and communication skills to the job.

Thank you for considering my application. I look forward to hearing from you.

Yours sincerely,

Prisha Bhatia

PRISHA BHATIA

Step 4: Screening

The selection process now begins with **shortlisting**. The HR manager examines all the applications (CVs, application forms and letters of application) received. He then rejects those applicants who do not meet the requirements of the job description and person specification. Those who have not been screened out in this way are "shortlisted" for the next stage of the selection procedure.

Step 5: Selection Tests

The shortlisted applicants undergo a series of tests to assess their abilities and suitability for the vacancy as follows:

- **Intelligence** tests measure a candidate's general level of intelligence.
- **Aptitude** tests measure a candidate's skills in a particular area to see if they are suitable for the role (such as maths skills, language skills and so on).
- **Personality** tests measure a candidate's characteristics and dispositions and give the employer an idea of probable attitudes and behaviours that the business may face if it hires that employee. The aim is to find employees whose personalities match the culture of the business.

Step 6: Interview

Those candidates who performed best in the selection tests are then called for an interview. An interview is a **face-to-face conversation** between the candidate and the HR manager. The purpose of the interview is to find out more about the applicant – to see if she can do the job and to see if she will fit in with the business and its culture.

The interview is the most common selection technique used in Ireland, but it has many potential flaws, including interviewer bias and the fact that interview performance is no guarantee of actual job performance.

To overcome the problem of interviewer bias, many businesses use a **panel interview**. A panel interview is where the applicant is interviewed by a number of interviewers at the same time. Each interviewer may ask her questions and each one then has a vote to decide on the most suitable candidate for the vacancy. A panel interview ensures that one interviewer's prejudice does not exclude a suitable candidate nor hire an unsuitable one as the others on the panel will not share the same bias.

To overcome the problem that a good interview does not guarantee a good worker, the business can use a **stress interview**. This is where the interviewer deliberately puts the candidate under stress to see how she reacts and copes in a pressurised situation.

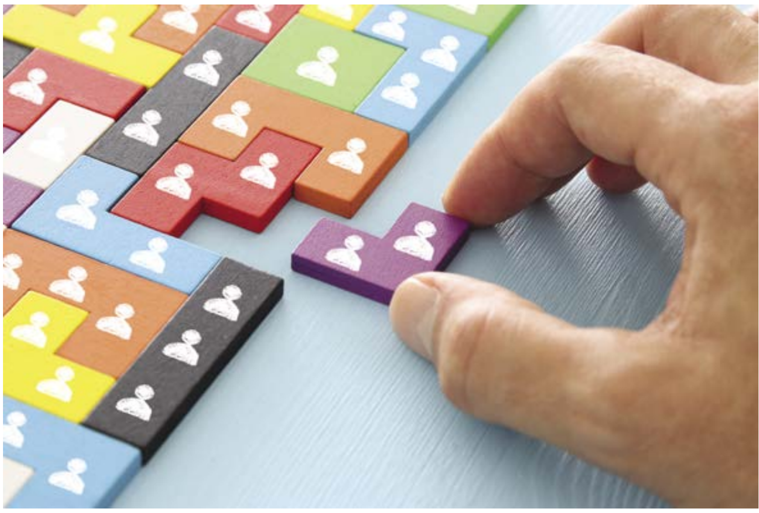
Step 7: Check References

The HR manager checks the references of those who did best at the interview to confirm the information already obtained about the candidates and to hear first-hand what they were really like in their previous jobs.

Step 8: Offer the Job

The HR manager offers the job in writing to the best candidate. If she declines the offer, it is then made to the next applicant in order of merit. When an applicant accepts the job, a contract of employment is drawn up. It sets out the duties and behaviour expected from the new employee. The employer and the new employee sign it. The Human Resources department keeps a record of it and the employee is given a copy of it.

Benefits of Recruitment



- Drawing up a job description and a person specification in advance gives the business **unbiased criteria** to compare the suitability of the various applicants. This helps it to find the **best possible candidate** (one with the right abilities and skills) for the vacancy.
- Good recruitment (for example, a well phrased advertisement that sets out exactly what the business is looking for) **discourages unsuitable** people from applying. This saves the business time and money by not having to process lots of totally unsuitable applications. Using online recruitment means the business can receive applications online thus saving a lot of money by not having to print out and post application forms to applicants.

Benefits of Selection

- Choosing the right person who will fit in with the business and its beliefs will reduce the possibility of **industrial action** in the future.
- Choosing the best possible person means that the **job will be done well**. The new employee will make excellent quality products and/or give customers excellent service. This will help the business to increase its sales and profits.

Training and Development

Training

Training is where the HR manager teaches the employees the knowledge, skills and attitude they need to perform the duties of their jobs properly. There are a number of different types of training a HR manager will engage in.

Induction Training

- This is the very **first** training given to a new employee when she starts the job.
- It involves teaching her about the aims of the business and the key people in it. The purpose is to **familiarise** her with the business and help her to settle in as quickly as possible.

There are two main ways that a HR manager can teach a worker how to do her job. They are called on-the-job training and off-the job training.

On-the-Job Training

This is **teaching** the employee the knowledge, skills and attitude needed to do the job well, while she is in the normal working situation. The employee learns through practical experience gained from working with and observing experienced employees. She learns by **having a go** and **practising** the tasks involved in the job.

Techniques used include job rotation, where the employee is trained in gradually by moving her from one department to another in the business. In this way, she learns about each part of the business.

For example, the HR manager in a fast-food restaurant might train a worker there as follows:

1. Two weeks making fries with Ben (who has worked there for 10 years).
2. Two weeks making burgers with Ciara (who has worked there for 8 years).
3. Two weeks on the cash register with Tom (who has worked there for 19 years).

Off-the-Job Training

This is **teaching** the employee the knowledge, skills and attitude needed to do the job well, away from the normal working situation. The employee learns by attending **courses** away from his place of work.

Techniques used include attending evening classes, conferences and so on. For instance, a business will train an employee to be an accountant by sending him to evening and weekend classes run by one of the professional accountancy bodies such as Chartered Accountants Ireland.

Development

This is teaching employees the **life-long skills and knowledge** that will help them to grow as individuals and tackle any future work challenges.

It is more than training. Training teaches employees the skills needed for one particular job. Development teaches them skills that they can use in **any job** they have in the future. Development enables employees to seek promotion and more challenging work.

Teaching fast-food restaurant employees how to make burgers is training. Sending them on communication skills courses is an example of development.

Benefits of Training and Development

- Good training and development teaches workers the skills needed to do a good job and make excellent quality products and give customers excellent service. This leads to higher sales and profits for the business.
- Good training and development gives workers a variety of skills and makes them more flexible. This means that they are better able to cope with any changes that may take place in the business.
- Properly trained workers know exactly what to do and therefore need less supervision. This frees their manager so that she can concentrate on solving the main problems the business faces.
- Good training and development means that workers do their jobs well. This leads to less conflict between managers and employees over unsatisfactory work. It improves industrial relations.

Performance Appraisal

Performance appraisal is the process of evaluating the progress, contribution and effectiveness of an employee. The HR manager grades each worker on how well he or she carried out the tasks assigned to them.

Performance appraisal involves the following steps:

Step 1 The employee and the manager meet to give the employee tasks and targets to achieve during the next period.

Step 2 The manager regularly monitors and evaluates the employee's progress in reaching his target.

Step 3 The manager fills in a formal performance appraisal form in which she assesses how well or badly the worker completed his tasks.

Step 4 The manager will then formally meet with the employee to discuss the results of his appraisal.

A performance appraisal form looks like this:

Employee's name:					
Manager's name:					
Ratings:	***Excellent***	***Good***	***Average***	***Poor***	Comments:
Punctuality					
Teamwork					
Speed of work					
Accuracy					

Benefits of Performance Appraisal

- Performance appraisal helps a manager to spot those employees who are not working to the standards required of them. The manager can offer them more training and/or resources to help them to "up their game" and thus improve their performance. This, in turn, helps the business to improve.
- Performance appraisal helps the business to identify those employees who deserve a promotion. Employees who get excellent performance appraisals are the ones who are suitable candidates for internal promotion. This ensures that the business has a ready supply of future managers.
- Performance appraisal improves employee motivation. When an employee knows that he is being graded on his work and will be called in by his manager to discuss and account for his efforts, this motivates him to work harder as he will want to achieve a good appraisal.
- Because performance appraisal involves regular meetings between the manager and the employee, the relationship between them should improve. These meetings give both a chance to talk to each other and sort out any problems that may exist. Thus, performance appraisal can lead to improved industrial relations and less chance of strikes that would harm the business.

Pay and Rewards

Pay and rewards consist of the incentives offered to employees as compensation for the work they have done. They can be **financial** or **non-financial**.

FINANCIAL REWARDS	
Financial rewards are when the employer compensates the employee with money or some other item that has a money value.	
Basic wage	The employee is paid a fixed amount each week or month. Teachers are paid this way, for example. **Advantage:** It is easy for the employer to operate. **Disadvantage:** It does not give the employee any incentive to work harder.
Hourly rate	The employee is paid a fixed amount per hour for a certain number of hours (for example, €10 per hour for 37 hours). Hours worked in excess of this are paid at a higher rate. This is called overtime. Example: "Double time" would be €20 per hour. **Advantage:** It is easy for the employer to operate. **Disadvantage:** It may cause employees to "drag out" the work to make it last longer so that they earn more money.
Piece rate	The employee is paid a fixed amount for each item she makes. Example: €1 per item made. **Advantage:** It encourages employees to work harder and be more productive. **Disadvantage:** Employees may rush their work to get as many products finished as possible and hence make mistakes.
Commission	An employee working in sales receives a percentage of the value of the sales they make. **Advantage:** The commission is an incentive for employees to work harder. **Disadvantage:** Commission may cause some salespeople to be too pushy with customers. In the long run, this will turn customers off the business.
Bonus	This is an additional lump-sum payment given to an employee when she reaches her target. It is usually paid at the end of the year. **Advantage:** It encourages employees to work towards their target.
Benefits-in-kind	A benefit-in-kind is a non-cash payment made to the employee. The employer gives the employee things that are worth money, rather than actual cash itself. Benefits-in-kind are used to raise the status of the job and to improve employee morale. They are also called perks of the job or fringe benefits. Examples include a company car, subsidised meals, etc.
Share ownership	Employees are given free or cheap shares in the business as a form of bonus. In this way, the employees become part owners in the business. It provides a big incentive to work hard because the better the business does, the greater the dividends the employees will receive and the more their shares will be worth.
Profit sharing	This is a form of bonus. As a reward, employees are paid a percentage of the profit made by the business.

NON-FINANCIAL REWARDS	
Non-financial rewards are when the employer compensates the employee for work done with inducements other than money or items that have a money value.	
Flexitime	An employer can reward employees with flexitime. This is where the employees are allowed to start and finish work when they want, provided that they work the contracted number of hours and are present for certain "core hours".
Promotion	The employee is moved to a more senior role in the organisation. She is given more responsibility and a better job title.
Job enlargement	Employees are given extra duties to do in order to relieve the boredom of work. The extra duties do not carry any extra responsibility though.
Job enrichment	Employees are given greater responsibility in the business. They are given tasks intended to develop them and to get them to use their full abilities and skills.

Benefits of Pay and Rewards

- Good pay and rewards motivate employees to work harder, produce excellent quality products and give customers excellent service. This leads to greater sales and profits for the business.
- When employees are well rewarded, they are more likely to stay with the business. Proper compensation is one factor why employees remain with employers. Loyalty means that business owners do not need to continue to spend time, money and energy on recruiting new candidates.
- Good pay and rewards help the business to attract the very best employees to come work for it. There is a limited number of people with the necessary skills to excel in certain roles. One of the most effective ways to attract these people is through good pay and rewards. Having the best employees helps the business to succeed.

Employer/Employee Relationships

This involves the HR manager making sure that there is a good working relationship between the employer and the employees in the business. She must ensure that they communicate well with each other, work well together and generally get along with each other. The HR manager can ensure a good employer/employee relationship in a number of ways:

1. Regular Open Communications

The HR manager should hold **regular face-to-face meetings** with the employees to keep them informed about the current state of the business. The business should not hide things from the employees. It should be honest and open with them. This helps to build trust between the two and to reduce gossip and misinformation that can lead to unnecessary disputes.

2. Grievance Procedures

The HR manager and the employees should agree in advance on procedures for dealing with conflict situations, such as promotions, redundancies and grievances. This means that whenever conflict does arise, there is an agreed way to solve it. Grievance procedures minimise the risk of industrial action.

For example, a grievance procedure may be drawn up to deal with any redundancies that may arise in the business. The HR manager and the employees might agree to use the "Last In First Out" method.

3. Training

Managers should be taught how to deal with employee problems in a sensitive and understanding way. They should be taught how to handle conflict so that small issues do not turn into serious industrial relations problems.

Employees should be taught the knowledge, skills and attitude they need so that they can perform the duties expected of them to a very high standard. This will reduce conflict between managers and employees over unsatisfactory work.

4. Selection

To avoid industrial relations problems arising in the first place, the HR manager should select employees who will fit in and share the business's beliefs. This will minimise the likelihood of conflict.

"If you don't want trouble, don't hire troublemakers!"

Benefits of Good Employer/Employee Relationships

Good employer/employee relations bring the following benefits:

- Employees will be happier in their work if employer/employee relations are good. If the employees are happy with their employer, they are more willing to work hard for the business. Thus, employee **motivation** and productivity increases.
- Employees will put in extra effort at their job. They will become **intrapreneurs** (*see Chapter 4*) and voluntarily offer their employer really useful suggestions to help the business.

> Microsoft's good industrial relations climate prompted employees there to think up the idea for the Xbox games console, which made the company a lot of money.

- Employees are more likely to **stay** in the job because they are happy there. Thus, labour turnover (the rate at which employees leave the business) and absenteeism (employees taking days off) will decrease. This saves the business time and money from not having to constantly recruit, select and train replacement employees.
- Employees and employers will be able to talk out any problems in a spirit of goodwill and **cooperation**. There will be less chance of strikes being used to solve disputes. Strikes harm the business as it can lead to a loss of the business's good reputation and a loss of sales if customers' orders are delayed or not filled. Strikes are also bad for the employees as they do not get paid while on strike.
- The employer will **delegate** (*see Chapter 6*) work to the employees because she trusts them. She will also give them power to make decisions for the good of the business (this is called employee empowerment – *see Chapter 10*). This means that the employees make a useful contribution to the success of the business.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Name **three** functions of a Human Resources manager.
2. Explain the purpose of manpower planning.
3. Distinguish between a "job description" and a "person specification".
4. Explain the term "external recruitment" and give one source of external recruitment.
5. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. CV	(a) List of questions prepared by the employer and answered by candidates for a job vacancy
2. Application form	(b) Finding someone from outside the business to fill a job vacancy
3. Letter of application	(c) Finding someone from among the existing workforce to fill a job vacancy
4. Internal recruitment	(d) Offering workers in rival companies a job in your business
5. Selection	(e) Curriculum Vitae
6. Headhunting	(f) Letter written by applicants for a job to introduce themselves to the employer
	(g) Choosing the best applicant for the job

1	2	3	4	5	6

6. Distinguish between "on-the-job training" and "off-the-job training".
7. Explain the term "performance appraisal".
8. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Employees who receive a bad appraisal from their manager will get a promotion.	
B	Development involves teaching workers skills that they will use throughout their entire career.	
C	Good recruitment minimises the number of unsuitable applications received.	
D	Panel interviews are when an applicant is interviewed by a number of interviewers.	
E	Aptitude tests measure a candidate's skills in a particular area.	

9. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. BIK	(a) Additional payment received when an employee reaches her target
2. Bonus	(b) Employee is paid a fixed amount every month
3. Piece rate	(c) Employee receives a percentage of the price of everything he sells
4. Commission	(d) Employee receives a percentage of the profits made by the business
5. Basic wage	(e) Benefit-in-kind
6. Profit sharing	(f) Employee receives free or cheap shares in the business
	(g) Employee receives a fixed amount for every product she makes

1	2	3	4	5	6

EXAM SECTION 2 – LONG QUESTIONS

1. The principal of your school wishes to employ a new Business teacher. Draft a job description and a person specification for a Business teacher in your school. **(20 marks)**
2. Use your answer from Q1 to draft an advertisement for your school when looking for a new Business teacher. **(20 marks)**
3. Identify and explain **two** sources of external recruitment. **(10 marks)**
4. Outline **three** advantages of external recruitment. **(15 marks)**
5. John McLaughlin lives at 10 Marsh Street, Tralee. He passed his Leaving Certificate in 2022 and got honours in Art and Agricultural Science. He plays senior hurling for St Enda's Club, Tralee and coaches the junior team as well. Draft a suitable CV for John. **(20 marks)**
6. Outline **four** benefits of recruitment and selection to a business. **(20 marks)**
7. Explain **four** advantages of training and development for a business. **(20 marks)**
8. Explain **three** different types of rewards that employers can offer employees. **(15 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain your understanding of the HR function "manpower planning".
2. Illustrate the difference between a "job description" and a "person specification".
3. Distinguish between "internal" and "external" recruitment.
4. What do the letters CV stand for? Explain its use in business.
5. Name **three** selection tests used by a Human Resources manager and explain any **one** of them.
6. Illustrate your understanding of the term "training and development".
7. Distinguish between "on-the-job" and "off-the-job" training.
8. Which function of a Human Resources manager do you feel is the most important? Explain your choice.
9. What is a "non-financial reward"? Name **two** non-financial rewards.
10. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. On-the-job training
2. Development
3. Interview
4. Screening
5. Off-the-job training

Column 2: Explanations
(a) Employees are taught life-long skills
(b) Candidates without the basic qualifications are rejected
(c) Employees are taught through practical experience at work
(d) Involves testing candidates' intelligence and aptitudes
(e) Face-to-face conversation with candidate to find out more about him
(f) Employees are taught by attending courses outside work
(g) Choosing the best applicant for the job

1	2	3	4	5

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Fish-Are-Friends Ltd

Diarmuid Furlong established his tropical fish business, Fish-Are-Friends Ltd, five years ago. The business has experienced massive growth due to increased interest in fishkeeping. As the business grew, Diarmuid had to take on extra staff. Some employees found it hard to settle in and left soon after joining. Diarmuid pays his workers a basic wage and a bonus based on a review of their work over the year. He holds regular staff meetings and generally gets on well with his employees.

The rapid expansion has not come without problems, though. Diarmuid has found it increasingly difficult to find knowledgeable staff. Some customers have complained that they were not warned that the fish they bought would eat the other fish in their tank. Diarmuid was furious with the new employees he had recruited for causing this error. The new employees blamed existing staff who saw what happened and ignored it. In a bid to keep customers, Diarmuid assured them of his personal service at all times. He now finds himself under constant stress dealing with staff, customers and suppliers.

Diarmuid knows that changes are needed in the business. The business needs to import new stock, but Diarmuid has not had the time to research what to buy. Employees are complaining about being watched all the time and having no say. A friend recommended he introduce training, but Diarmuid is unsure.

Discuss how the business might do better if Diarmuid introduced training and development in his business. Support your answer with reference to the text. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Explain the term "manpower planning". **(10 marks)**
2. Differentiate between recruitment and selection. **(20 marks)**
3. Explain the following HRM terms: Interview; job description; CV; internal recruitment. **(20 marks)**
4. "Internal and external recruitment are used by most businesses".
   Set out the reasons why you believe this statement to be true. **(20 marks)**
5. Describe, using examples, **three** types of training available to a Human Resources manager. **(30 marks)**
6. Discuss the reasons why manages carry out "training and development" in business. **(20 marks)**
7. Explain the term "performance appraisal" and analyse the contribution it can make to the successful running of a business. **(25 marks)**
8. Outline the various types of financial and non-financial rewards used by Human Resources managers in business. **(20 marks)**
9. Discuss the importance of good employer/employee relationships in business. **(25 marks)**
10. Evaluate the importance of Human Resource Management to the success of a business. **(30 marks)**

NOTES

UNIT 4

CHAPTER 10

MANAGING CHANGE IN BUSINESS

LEARNING OUTCOMES

In this chapter, we will look at:

- The positive consequences of managers giving employees more power and say within the business.
- The importance of teamwork in a business.
- How managers can ensure the business delivers top quality to its customers.
- How technological advances affect the managers, the employees, the business's costs and its opportunities to make money.
- How managers can get employees go along with the changes they want to make in the business.

Role Change from Controller to Facilitator

Irish society has changed in recent years. Scandals involving political and religious leaders have seriously challenged Irish people's faith in authority and as a result they are much less willing to be told what to do. These changes in Irish society have also affected Irish business. Because employees are no longer willing to put up with being ordered about, Irish managers have had to change the way they deal with workers. Many managers have changed from controller to facilitator managers.

Controller Manager

- A controller manager is **autocratic**. He tells employees exactly what to do and expects them to do it without question. He assumes he knows everything and never asks employees for their opinions about the business. He makes all the decisions.
- He keeps a close eye on employees to make sure they obey all the rules. To get them to conform, he threatens and **punishes** them when they make mistakes.

Facilitator Manager

- The facilitator manager is like a **coach**. He trains employees so that they acquire the skills needed to make decisions and solve problems in the business by themselves. He uses employee empowerment and employee participation (see later in this chapter) to enable them to make a much more useful contribution to the business.

- He tries to **help** employees when they make mistakes or have a problem at work. He makes funding and resources available to all to ensure that employees have everything they need to do their job better, such as training, advice, equipment, new technology and so on.
- Facilitator managers believe in the following:
  - Employee empowerment
  - Employee participation
  - Teamwork
  - Excellent quality.

Employee Empowerment

Employee empowerment is where a manager gives an employee the power to make her own decisions about how she does her job, without having to ask her manager's permission first. Employees are given the freedom to use their skills and knowledge as they see fit to do their job the best way they can.

Benefits of Employee Empowerment

- The business makes the most of its employees' skills and talents. Employees are not just used to carry out simple mundane tasks. Instead, they have the power to be **creative** and **innovative**. They will use their initiative to make excellent decisions that may help solve problems in the business.
- Because employees are given the power to make decisions related to their jobs, they have to consult with their managers less. Managers can thus spend **less time supervising** employees, allowing them to concentrate on other important matters, such as solving the main problems facing the business.
- Employees' **motivation** increases because they are given more responsible jobs to do (*Theory Y – Chapter 6*). Giving them control over their work makes them feel better about themselves. It satisfies their esteem needs (*Maslow – Chapter 6*). It makes them happier in their jobs and, therefore, they work harder.
- The business gives **better service** to its customers. If a customer has any query or complaint, the employee he is dealing with has the power to solve his problem. Customers are impressed that the first person they speak to in the business can help them. There is no waiting for managers.

Disadvantages of Employee Empowerment

While empowerment can have many advantages for a business, there are also potential risks associated with it:

- Empowering employees opens the business up to the **risk** of serious **mistakes** being made. Some employees may not be knowledgeable enough or have had adequate training to make good decisions. They may inadvertently do the wrong thing and end up costing the company money.
- Some employees may confuse empowerment with having the authority to do whatever they want. They may take things too far. This leads to increased conflict between the manager and these employees. It can result in a more **hostile** working environment and poorer industrial relations.
- Some employees may be unhappy with empowerment. They may feel that they are not skilled enough to deal with the extra responsibility it entails. This may cause them to become **stressed** and demotivated at work.

Employee Participation

Employee participation means giving employees more of a say in the running of the business. They are allowed an input into the business's decision-making process. It is sometimes called industrial democracy.

Employee participation may be achieved in a number of ways:

1. **Works councils:** Works councils are groups of employees, elected by their fellow employees, who are allowed to have a say in the business's plans and strategy and to make some decisions. Under EU rules, every business with more than 1,000 employees must have a works council.
2. **Worker directors:** The business allows employees to have seats on the company's Board of Directors. Worker directors are elected by their fellow employees. This gives the employees an input into decision-making at the highest level in the business.
3. **Share options:** Employees are allowed to buy shares in the business at a reduced price. This allows them to become owners in the business and have a vote at the company's Annual General Meeting.

Benefits of Employee Participation

- Employee **motivation** increases because they feel more important to the business when they have a say and are listened to. It satisfies their esteem needs (*Maslow – Chapter 6*). It makes them happier in their jobs and, therefore, they work harder.
- The business benefits from the creative input of employees. They may offer useful solutions to the business's problems and/or suggestions to make the business better. This is called **intrapreneurship** (*see Chapter 4*).
- There is more communication between employees and managers through works councils and worker directors. This leads to better **industrial relations** in the business. Problems are more likely to be solved through negotiation and a spirit of cooperation, rather than industrial action and strikes.

Teamwork

As part of the effort to manage employees better, many businesses do not encourage employees to work on their own in isolation, but put them into work teams instead. A team is a group of employees working together to achieve a certain objective.

Stages in Forming Teams

It takes time for a new team to gel and work to its full potential. Team members go through stages as they move from being "strangers" to "co-workers". In 1965, Bruce Tuckman identified four stages that people on a team go through from when they first meet to when they actually work well together. These stages are as follows:

Stage 1: Forming

- Members of the team meet for the very first time.
- They are very polite to each other.
- They discuss the job that they have to do together.
- However, they do not reveal too much about themselves.
- They are "sussing each other out".

Stage 2: Storming

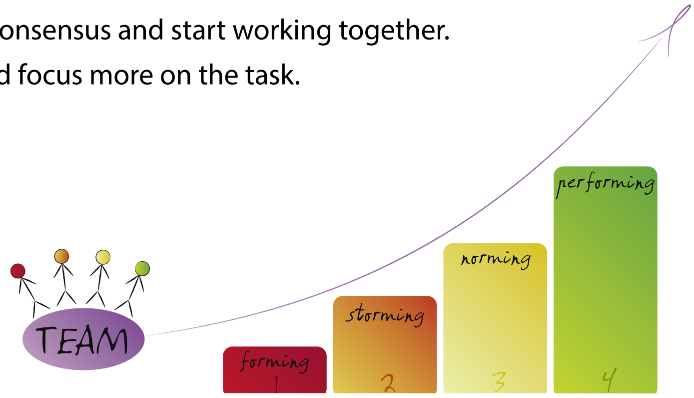
- As team members get to know each other a bit better, conflict occurs.
- Arguments arise as strong personalities emerge within the team.
- Rows happen when team members attempt to establish themselves and their position in relation to other team members and the leader, who might receive challenges from team members.

Stage 3: Norming

- Team members resolve their conflicts, reach a consensus and start working together.
- They agree on ground rules and procedures and focus more on the task.
- They start to trust each other.

Stage 4: Performing

- Team members pull together as one and focus on getting the job done.
- They cooperate with each other and work together as a unit.
- There is a strong sense of unity in the team.



Advantages of Teams for the Business

- **Teams make better decisions:** When a decision has to be made or the business needs new ideas, the members in a team can **brainstorm** with each other. Each team member brings different expertise and perspectives to the team's discussions. Each person can build on the ideas put forward by others. Therefore, a team can come up with better solutions and more creative ideas for the business that an individual working alone would not think of on his own.
- **Teams improve employee motivation:** Employees are happier working in a team. In work teams, they are mixing with other people. This satisfies their social needs, according to Maslow's Hierarchy of Needs. Satisfying the employees' social needs **motivates** them to stay working for the business, which saves it a lot of money because it does not have to constantly recruit, select and train new employees to replace the people leaving.
- **Teams make better quality products:** The members of the team develop a **team spirit** and a sense of purpose and do their jobs to the best of their ability to make their team a success. Team members will try to make the best possible products because they do not want to be the cause of team failure, thereby letting their teammates down.

  Furthermore, the rivalry between work teams motivates each team to make the best possible products just to beat the other teams. This means that everyone in the business will be trying to make the best possible products.
- **Teams improve coordination in the business:** In a particular team, the team members may come from different departments in the business (such as Finance, Marketing, Production

and Human Resources). In this way, employees from the different parts of the business mix with each other on a daily basis. Mixing in this way helps them to respect each other and understand the important role played by the others in the business. They learn to appreciate that they are "all in it together" and so the different departments **pull together** in the same direction to make the business a success.

Advantages of Teams for the Employees

- **Teams satisfy employees' social needs:** An employee is happier working in a team because he is mixing with other people. It satisfies his social needs. It gives him a sense of belonging. The **support** and advice he gets from his teammates makes work more bearable for the employee and also more enjoyable.
- **Teams develop the employee:** Working as part of a team exposes an employee to the practices and work ethic of possibly more experienced workers. This can help her to **learn** more about her job more quickly than trying to learn on her own or through instruction. It helps her to become a better worker, which ultimately increases her promotion prospects and generally makes her more employable.
- **Teams protect employees:** An individual worker might find it hard to make a tough decision, such as making others redundant. But with the mutual support and protection of a team, these tough decisions are easier for employees to make. An individual employee **cannot be singled out** by others as the "bad guy" if decisions are collectively made by the team and not him alone. Thus, he is able to "hide behind" the team.
- **Teams offer employees recognition:** Working as part of a team allows an employee the chance to be **praised** by her teammates when she makes an excellent contribution to team discussions or does some good work for the team. This makes the employee feel good about and proud of herself as her efforts do not go unnoticed as they might do if she worked alone.

Quality Assurance

Irish consumers have changed in recent years. In the past, they may have put up with inferior products as they had little choice. But increased wealth means that they can now afford to buy the best, and foreign travel has exposed them to superior products abroad. As a result, Irish consumers now expect the very best quality from the products and services they buy.

This means that businesses have had to change their approach to quality and must now aim to deliver top quality products to customers. They must employ Quality Assurance techniques to achieve this, including Total Quality Management (TQM).

Quality Assurance (QA) involves the business putting systems in place to make sure that each product reaches the desired level of quality and meets the requirements of customers. It involves paying close attention to and checking quality at every stage of making and selling the product – from its design right through to its sale. The aim of QA is to prevent problems by detecting them and fixing them as soon as they are detected (rather than waiting until the product is made and then checking it for faults).

Advantages of Quality Assurance

- QA ensures that the business's products are consistently of the highest standard. Customers are happy with the products and so continue to buy them (repeat purchasing). This leads to an increase in **sales** for the business.
- Improved quality brought about by Quality Assurance leads to **lower costs** because the business does not waste money on repairing faulty products or giving refunds on faulty products.

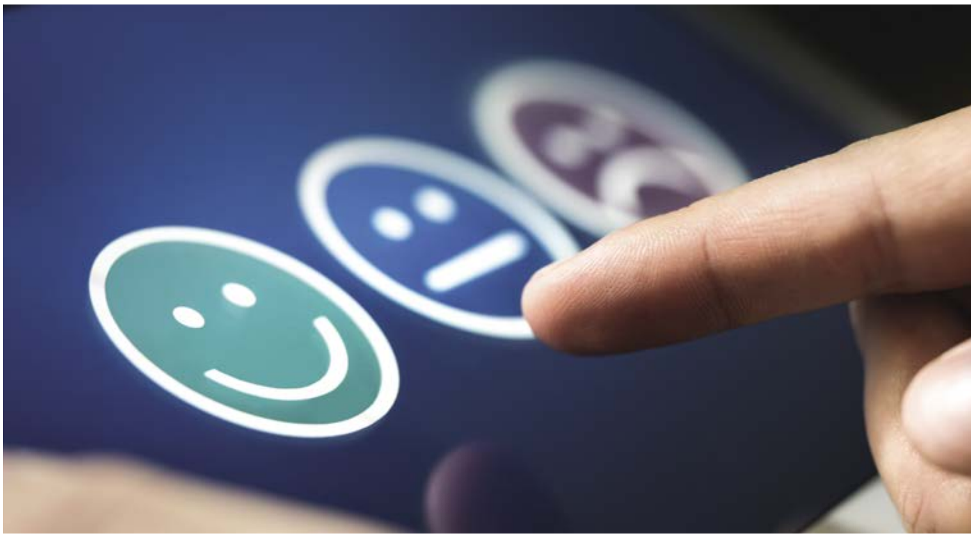
- If a business receives a quality award such as ISO 9000 (*see Chapter 8*), this can help the business with its **marketing**. It helps to arouse customers' interest in the product, even if they have never heard of it, because the ISO 9000 award reassures them that it is a brand of quality that can be trusted.
- QA **motivates** employees. They feel a great sense of job satisfaction and achievement from producing excellent quality products and working in a business that is well respected for its quality. Because the employees are more motivated, they work harder for the business.

Total Quality Management (TQM)

Total Quality Management (TQM) is a business management strategy that aims to ensure that the business makes 100% perfect products 100% of the time so that its customers are 100% satisfied. It says that every person in the business is responsible for delivering quality to the customer. If every single person in the business does their job perfectly, the business's products will be perfect.

If a business follows the principles of TQM, the business will have perfect quality products. There are four main principles of TQM:

1. **Focus on the Customer**
   The first step in a TQM business is to define quality. It is described in terms of what customers want. The customer is the most important person in a TQM business. The definition of perfection is *whatever the customer wants*. Therefore, the business conducts market research to find out what customers want and then sets about making exactly that product for them.



2. **Employee Empowerment**
   To make excellent products requires excellent employees. In a TQM business, employees are given the power to make their own decisions about how they do their jobs, without having to ask their manager's permission first. Employees use their skills and knowledge as they see fit to produce perfect products. They are allowed make whatever purchases or changes they think are needed to improve the quality of the product to make sure it is perfect.

3. **Teamwork**
   Making excellent products requires excellent raw materials (ingredients). In a TQM environment, the business and its suppliers work together as a team. The business signs long-term contracts with the supplier and pays him a good price in return for the supplier consistently delivering perfect raw materials to the business.

   A TQM business also puts its employees into teams to do their work. This motivates them to work harder to make perfect products so as not to let their team mates down.

4. **Continuous Improvement**
   The aim of TQM is to make perfect products. The business must strive for "zero defects" in its products. While the aim of making 100% perfect products 100% of the time might be unrealistic, the business tries each time to do better than the last. This is called continuous improvement.

Example of TQM in Guinness

Guinness's vision is to have the perfect pint, everywhere, every time. This requires TQM at every stage in the production (making) and distribution (selling) chain.

Stage 1: Raw materials

Guinness only buys from the very best barley growers. It researches new types of barley, checks that its suppliers are growing the right type of barley and checks the quality of each barley harvest before buying it.

Stage 2: Manufacturing process

Every day, trained testers undertake tests on dozens of samples of stout at regular stages in the brewing process to ensure that it is in peak condition for the customer. The tasters score the stout for its aroma, flavour and head quality, and they detect any hint of deviation from the normal.

In addition to tasting, Guinness uses leading-edge technology to continuously monitor the brewing process. The company employs Quality Assurance Laboratory employees who take samples of the stout at every stage in the brewing process and check them microbiologically to make sure that they are perfect.

Stage 3: In pubs

To ensure a high-quality product at all times, Guinness has invested heavily in sales quality. It spent over €1 million developing the current Guinness tap. It is easy to operate and ensures that every pint is perfectly presented. The Guinness Quality Team regularly visits all the pubs in Ireland to check the quality of the pint and to advise the bar staff about delivering the "perfect pint".

Benefits of Total Quality Management

- **Increased sales:** Employees, managers and suppliers in the business all work together as a team to make perfect quality products. The business's quality improves as does its reputation for manufacturing excellent products. This leads to higher sales and profits for the business.
- **Lower costs:** Because a TQM business makes excellent quality products, it enjoys lower costs. It no longer wastes money repairing faulty products as all its products are perfect. Similarly, it no longer squanders money giving refunds to dissatisfied customers. These cost savings help the business to keep its prices low and remain competitive.
- **Improved motivation:** TQM satisfies employees' esteem needs (Maslow's Hierarchy of Needs). They feel a great sense of job satisfaction and achievement from producing excellent quality products and working in a business that is well respected for its quality. Because the employees are more motivated, they work harder for the business.
- **Meeting legal obligations:** Under the Sale of Goods and Supply of Services Act, 1980, all products a business sells must be of merchantable quality and fit for their purpose. TQM results in the business producing excellent quality products. This helps ensure it fulfils its legal responsibility to its customers under this law.

How Technology Changes the Role of Managers

We have so far looked at changes in Irish employees (who now expect to be treated better by their managers and given a say in running the business) and changes in Irish consumers (who now expect top quality products). The next big change that has taken place in Ireland and worldwide is new technology – the explosion in communication methods, such as powerful computers, the internet and mobile phones.

New technology has had a big impact on the job of a manager in a number of ways.

1. Marketing

Managers can use the Internet to **advertise** their products to consumers throughout the world on the business's own website or on famous social media platforms such as Instagram or TikTok. This helps managers to reach customers who may not look at traditional advertising media such as newspapers or TV (for example, teenagers). This leads to a better-known brand name and increased sales for the business.

Furthermore, the business can engage in **e-commerce**. It can use the internet to sell its products all over the world without setting up shops anywhere. The business displays its products on its website and a customer in any part of the world can view the website and order products from it, paying by credit card.

> Dell does not have any shops. They use their website, www.dell.com, to sell computers all over the world.

This enables managers to run an international business without the expense and hassle of foreign travel, buying foreign shops, employing staff in other countries and so on.

2. Decision-making

Managers can use Information and Communications Technology (ICT) to help them make better and faster decisions. They can **find information** in seconds on the Internet about any topic and use this to help them make a decision.

> If a manager has to decide which computer to buy, she can check prices on different suppliers' websites and choose the best deal for the business.

3. Production

Managers can use **computer-aided design** (CAD). This is computer software that is used to design new products for the business. Instead of drawing up designs by hand and manually building prototypes to test them, the computer can design and test the new product. This means that products can be designed and made much more quickly and cheaply. This enables a business to respond rapidly to market changes by helping it to bring new products to the market quickly.

Managers can use **computer-aided manufacturing** (CAM). This is computer software that controls the machines in the factory. It switches them on and off and tells them exactly what to make. CAM uses computers to monitor the tools and machines used in the factory and to make any adjustments needed to ensure perfect products are made.

This means that the machines can run 24 hours a day without making mistakes. This enables the business to mass-produce enough products to sell all over the world.

Computer-integrated manufacturing (CIM), which uses computers to control the entire production process from design to distribution, allows the business to produce high quality standardised products in each of its factories no matter where in the world they are located.

4. **Redundancies**

New technology can **replace employees** in the business. It can do the jobs previously done by workers. This reduces a manager's span of control, as there are fewer employees to supervise. This frees the manager up to spend time on other important aspects of running the business.

> Tesco managers have fewer workers to supervise now that it has replaced several employees with its self-service checkouts.

5. **Employee Retention and Motivation**

Managers can use modern technology to motivate and keep employees. The internet enables teleworking, which means that employees can work from home. This reduces the time and money employees spend commuting and also may suit employees with children. Therefore, it can be a very effective way to retain employees.

Impact of Technology on Personnel

New technology has not just affected the managers in a business. It has had a major impact on employees as well. Changes for employees include the following:

1. **Changes in Jobs**

New technology can change a worker's job by possibly making it easier or by enabling him to do more work or totally changing the way he carries out his duties.

> Bus drivers can now drive the bus and collect fares because of computerised technology on the bus.
>
> Very few accountants prepare a business's accounts by hand anymore. Instead, they use specialised accounting software packages to do this work.

2. **New Job Opportunities**

New technology creates opportunities for employees to work in new areas, such as computer programming and website design. Major employment opportunities exist in designing computer games and in managing social media accounts for businesses.

3. **Redundancies**

New technology can now do the work that was done in the past by employees. This allows the business to make these employees redundant. Therefore, the employee loses his job and becomes unemployed as a result of new technology. This leads to a drop in his standard of living.

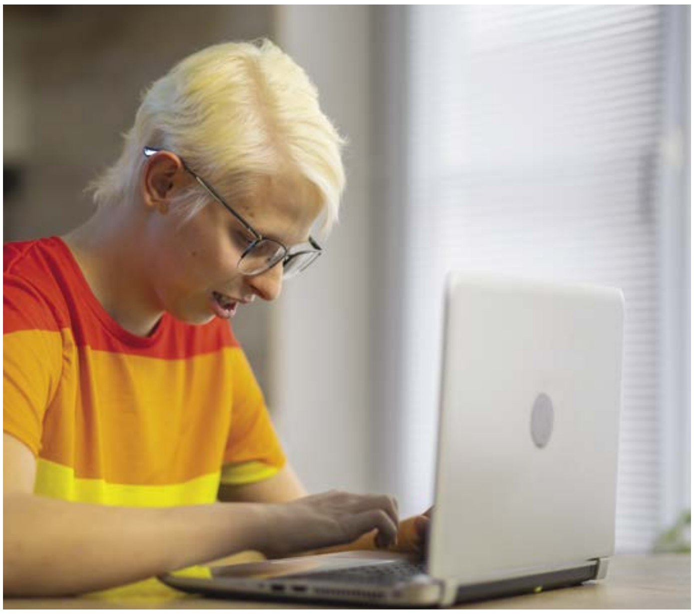
Self-service tills, where customers scan their own products, meant that many checkout assistants in supermarkets such as SuperValu, Tesco and Dunnes Stores lost their jobs.

4. **Teleworking/Remote Working**

Information and Communications Technology (ICT) enables certain employees to work from home. The employee's home computer is linked to the office computer. The employee completes work in his own home and sends it back to the office. In this way, the costs and hassle of commuting are eliminated or reduced. Remote working may also suit employees with families.

Impact of Technology on Costs

New technology has also impacted on the costs incurred by businesses. Some aspects of technology have led to lower costs for a business while others have caused increased costs.



Increased Costs

1. New technology can increase a business's costs. It costs a lot of money to buy technology – the hardware (equipment) and the software (programs to run on the hardware). It also costs money to maintain the hardware.
2. Employees have to be taught how to operate the new technology. Whether the business trains them in house or by sending them on courses, this training can cost a lot of money.

Reduced Costs

1. New technology can reduce a business's costs. CAM uses computers to monitor the tools and machines used in the factory and to make any adjustments needed to ensure perfect products are made. This reduces the money the business spends on giving refunds and repairing faulty products.
2. Fewer workers are needed because machines and technology now do the jobs that employees once did. For example, Electronic Data Interchange (*see Chapter 7*) means that a business no longer needs workers to process basic stock purchasing and invoicing. This leads to a reduced wages bill for the business.

Many stores now have self-service tills – this means they need fewer staff on checkout.

3. Videoconferencing is a virtual live meeting held between people who are in different locations. It reduces a business's costs as there is no need for foreign travel or hotel accommodation.

Impact of Technology on Business Opportunities

New technology offers businesses many opportunities.

1. **Design**

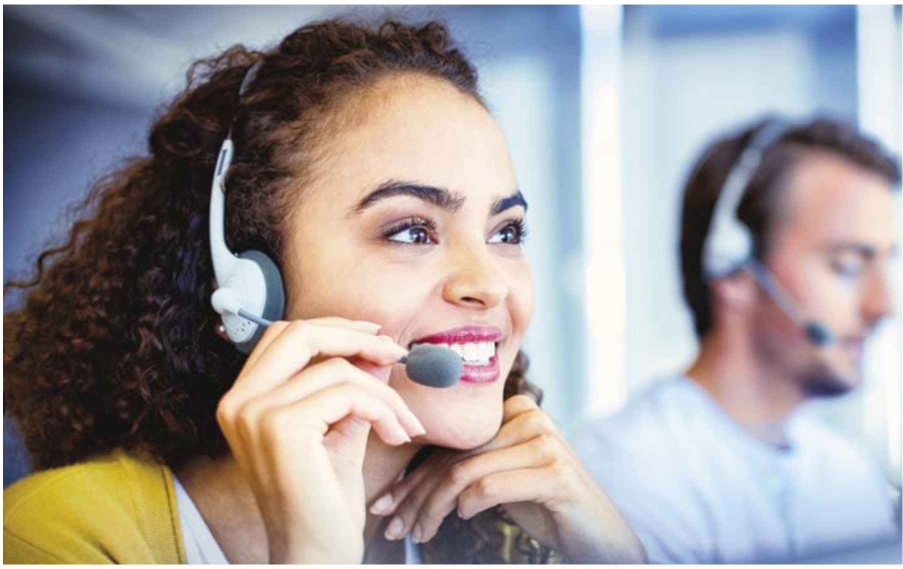
   Modern technology can be used to design, test and manufacture new products more quickly and cheaply than before. This enables a business to respond rapidly to market changes by helping it to bring new products to the market quickly.

> A car manufacturer can design and test a new car using CAD, without the expense or hassle of drawing up plans by hand, building prototypes, building wind tunnels to test the car and so on.

2. **Direct Marketing**

   A **database** is a computer program that stores, organises and manages information entered by a person. A business can use a database to store information about its customers, such as their names, email addresses, previous purchases and so on.

   The business can then use this information to target customers with tempting offers it knows will appeal to them and thus increase sales.



> For example, Amazon keeps a record of all items purchased by a customer and uses this information about the customer's preferences to recommend other items that it thinks the customer might like. These "recommendations" help Amazon to sell more. Spotify does the same thing with its customers.

3. **International Trade**

   The internet enables businesses to sell their products anywhere without setting up shops all over the world (**e-commerce**). The business advertises its products on its website and any customer in any part of the world can view the website and order products from it, paying by credit card. In this way, a business can use new technology to develop into an international business.

4. **New Products**

   New technology gives entrepreneurs the opportunity to develop brand new products.

> The internet allowed Brian Chesky, Joe Gebbia and Nathan Blecharczyk to set up Airbnb – an online accommodation booking service.
>
> YouTube was launched in 2005 and many people have become "YouTubers". They receive a portion of the income earned from ads shown before, during or after their content.
>
> Another example of new technology leading to new businesses include social media platforms such as Instagram. Kylie Jenner, founder and owner of Kylie Cosmetics, uses social media to promote her brand to her millions of followers.

Strategies for Managing Change

A business must change if it is to survive.

In 2020, most businesses had to change the way they operated to deal with the Covid-19 pandemic.

The employees may, however, fight changes. The job of the manager is to overcome this resistance. There are five main strategies for managing change, which involve the manager being a "facilitator" manager, as follows.

1. **Leading by Example**

   If a manager wants employees to accept a new change, she must set them a good example. She must show them that she is willing to put in the extra effort to cope with the change and then they will follow her lead and accept it too.

   She must show them that the change is extremely important to the business and that she is totally committed to it. If the employees see that the manager is resisting the new idea, they will resist it too and the change will fail.

As part of the effort to get Ryanair employees to accept a pay cut during the Covid-19 pandemic, Michael O'Leary, Group CEO, took a 50% pay cut for the months of April and May 2020.

2. **Communicating with Employees**

   Managers must discuss the change – what it is and the **reasons** for it – with the employees in order to win their acceptance of it. Imposing the change without communication will not work.

   Managers must be open and honest with employees and negotiate the change with them. This will reduce gossip and rumours. It will make workers feel less threatened by the change and therefore more likely to accept it.

A convenience store manager who wants to open her shop even earlier might find workers more willing to go along with this if she explains that the reason for the change is that she is finding it difficult to compete against similar shops that open earlier and that job losses might result without the change.

3. **Training Employees**

   A major reason why employees resist change is their **fear** that they will not be able to handle the new challenges it brings. Therefore, to make employees accept a change, a manager must teach them the knowledge, skills and attitude required to cope with the change successfully. Once they know that they have the necessary skills to cope with change, they will have no reason to fear it.

4. Teamwork

Managers should set up a special **project team**, consisting of employees from all parts of the business, to implement and drive the change in the business. This is called a matrix organisation structure (*Chapter 8*). The members of the project team develop team spirit and a sense of purpose and do their job to the best of their ability to make the change process a success.

5. Employee Participation

Employees must be allowed to have an **input** into the change. They should be asked to give suggestions on how to implement it and their opinions and ideas should be taken into account by management.

Giving employees a say will help to generate creative and innovative ideas to make the change more successful. And by having a say in the change, employees are more likely to accept it as they feel it is not being imposed on them. It gives them a sense of ownership over the change.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "employee empowerment".
2. Name **two** ways to increase employee participation in a business and explain any **one** of them.
3. The four stages in team formation include: Performing, Forming, Norming and Storming. Put these stages in the correct order and explain any one of the stages.
4. Explain how Information and Communications Technology can help marketing managers.
5. What do the following letters stand for? TQM CAM IT
6. What is computer-aided design?
7. Outline **two** ways in which technology can reduce a business's costs.
8. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. TQM	(a) Computer software that operates the machines in the factory
2. Facilitator manager	(b) Giving employees power to make decisions about their job on their own without having to ask the manager's permission.
3. Employee empowerment	(c) Manager makes all the decisions without consulting employees
4. Controller manager	(d) Giving employees more of a say in the running of the business
5. CAD	(e) Total Quality Management
6. CAM	(f) Manager helps employees to do their very best
	(g) Computer software used for designing new products

1	2	3	4	5	6

EXAM SECTION 2 – LONG QUESTIONS

1. Explain the difference between a "controller" and a "facilitator" manager. (20 marks)
2. Outline **three** benefits of employee empowerment for a business. (15 marks)
3. Describe **two** risks of employee empowerment for a business. (10 marks)
4. Explain the term "employee participation". (10 marks)
5. Outline **three** advantages of teamwork for a business. (15 marks)
6. Explain the term "TQM". Describe **three** advantages of TQM for a business. (20 marks)
7. Identify and explain **three** ways that technology affects the role of management. (15 marks)
8. Using examples, describe **three** ways in which technology has impacted on Irish employees. (20 marks)
9. Using examples, describe **three** ways in which technology has affected business opportunities. (20 marks)

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Define the term "facilitator manager".
2. Explain the term "controller manager".
3. Distinguish between "employee empowerment" and "employee participation".
4. Complete this sentence: Employee participation helps a business to…
5. The following table shows four stages in team formation and four behaviours.
   For each behaviour, tick (✓) the stage in team formation that is most likely to match that behaviour.

	Forming	Storming	Norming	Performing
Team members work together as a unit				
Team members meet for the first time				
Team members resolve their conflict and reach a consensus				
Team members set standards of behaviour and work				

6. Outline your understanding of TQM.
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Teleworking
2. Redundancies
3. Worker directors
4. Works councils
5. Share options

Column 2: Explanations
(a) Employees are given the power to make decisions about their jobs without having to ask their managers' permission first
(b) Employees are elected by their peers to represent them on the company's Board of Directors
(c) Employees can buy shares in the business at a reduced price
(d) Enables employees to work from home
(e) Employees are dismissed because they are replaced by technology
(f) A group, consisting of employees elected by their peers, who have a say in the running of a business

1	2	3	4	5

8. What do the letters CAD stand for? Explain its use in business.
9. Differentiate between CAD and CAM.
10. Describe **two** ways that technology has changed the role of the marketing manager.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Whales Ltd

Fatima Ahmed owns and manages her own business, Whales Ltd, which makes soft toys. Fatima is tough on her employees. She likes to be in control and make all the decisions. Every decision has to go through her.

A large number of toys have been returned as faulty in the last year. Fatima has been rushed off her feet dealing with this, and many customers were annoyed at how long they had to wait to see her. When not dealing with complaints, Fatima spends most of her time checking employees' work. Fatima's employees are not happy. Many are bored with their job of assembling soft toys. They frequently make suggestions to Fatima about how to improve the business, but she does not listen.

Illustrate, using the above text, how introducing employee empowerment can benefit Fatima's business. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Distinguish between a "facilitator manager" and a "controller manager." **(20 marks)**
2. Describe the benefits and risks for a manager of introducing employee empowerment in a business. **(20 marks)**
3. Outline the importance of employee participation in a business. **(20 marks)**
4. Explain each of the stages in team development identified by Bruce Tuckman. **(20 marks)**
5. Discuss the benefits for a business and for its employees of introducing teamwork. **(20 marks)**
6. Explain the term "Total Quality Management" and its importance in business. **(25 marks)**
7. Discuss, using examples, how technology has changed the role of business managers. **(25 marks)**
8. Evaluate the effect on a firm's personnel and costs of the introduction of new technology into the business. **(25 marks)**
9. Describe strategies a manager can use to ensure her employees successfully adapt to changes she is introducing in the business. **(20 marks)**

NOTES

UNIT 4

CHAPTER 11

ANALYSING FINANCIAL STATEMENTS

LEARNING OUTCOMES

In this chapter, we will look at:

- The two main financial accounts prepared for a business.
- Analysing profits made by a business.
- Analysing if a business has enough cash available to pay all its debts.
- Analysing whether a business is in too much debt.

Financial Statements

A major reason why an entrepreneur sets up her business is to make money. To find out how much money she is making, the entrepreneur will draw up a set of accounts, called financial statements. The two main financial statements are called the **Profit and Loss Account** and the **balance sheet**. These financial statements tell the entrepreneur how much profit she is making every year and how much her business is worth.

Profit and Loss (P&L) Account

The Profit and Loss Account (P&L) calculates the amount of the profit (or loss) that the business makes in a year. The Profit and Loss Account has two parts. The first part is the **Trading Account**. It works out the business' gross profit by subtracting the cost of making or buying the products from the money made from selling them.

The next section is called the **Profit and Loss Account**. It works out the business's net profit by subtracting the costs of running the business (such as wages, electricity, telephone bills and so on) from the gross profit. The net profit is the money made by the business after all the expenses have been paid.

A typical P&L is presented as follows:

Profit and Loss Account of Malik Ltd
for the Year Ended 31st December 2026

	€
Sales[1]	80,000
Subtract: cost of sales[2]	(30,000)
Gross profit[3]	**50,000**
Subtract: expenses[4]	(40,000)
Net profit[5]	**10,000**

- The way that any entrepreneur makes a profit is by **selling** products (or services). So, we start with how much the business sold its products for. Accountants call this number "sales[1]".
- From this, we subtract how much money was spent to make or buy the products sold. Accountants call this the "**cost of sales**[2]". *Note how accountants show subtraction – they put brackets around the number.*
- The difference between what products were sold for ("sales") and the amount they were bought for ("cost of sales") is called "gross profit[3]".
- From the gross profit, the entrepreneur has to pay all of business's running costs, such as employees' wages, electricity bills, rent on the building, insurance and so on. Accountants call the **running costs** of a business "expenses[4]".
- When the entrepreneur subtracts the business's expenses from the gross profit, the result is called "net profit[5]". It is the profit made by the business after all the bills have been paid. It is the entrepreneur's **reward** for her risk-taking and hard work. It is the amount left for the entrepreneur to do with as she pleases – she can reinvest some or all of it back into the business (which accountants call "retained earnings" or "reserves"). She can take some or all of the net profit for herself or give some of it to her investors (accountants call this a "dividend").

Importance of the P&L

The P&L Account is an important document for entrepreneurs and managers because:

1. If the business's gross profit number is low, this tells the manager that the **price** she sells the business's products for may be too low and that she should consider raising it to increase profits.
2. If the business's gross profit number is low, this tells the manager that the **cost** she pays for the business's products/raw materials may be too high and that she should consider looking for a cheaper supplier.
3. If the business's net profit number is low, this tells the manager that the business's expenses are too high. The manager can then examine the expenses carefully and make cutbacks to reduce **expenses** (such as wage cuts) and hence increase profits.
4. The size of the net profit helps the manager to make important decisions about the business. It tells him how much the business can afford to pay out as **dividends** to its shareholders. It also shows how much the business can afford to reinvest in the business. This will tell the manager whether the business can afford to pay for future expansion of the business out of profits or whether it will have to borrow for it.

Balance Sheet

The purpose of the balance sheet is to show the business's financial position (its wealth). It shows everything the business owns, called assets, and all the money it owes, called liabilities. A typical balance sheet is laid out as follows:

Balance Sheet of Malik Ltd
at 31st December 2026

	€	€
Fixed Assets[1]		70,000
Current Assets[2]	30,000	
Subtract: Current Liabilities[3]	(5,000)	
Working Capital[4]		25,000
Total Net Assets[(1+4)]		**95,000**
Financed By[5]		
Issued Ordinary/(Equity) Share Capital[6]		50,000
Retained Earnings/Reserves[7]		15,000
Long-term Loans[8]		30,000
Preference Shares[9]		0
Capital Employed[(6+7+8+9)]		**95,000**

To get an idea of how much her business may be worth on a particular date, the entrepreneur will add up the value of everything the business owns on that date; these things are the business's assets. Accountants classify **assets** into two types. **Fixed Assets**[1] are all the valuable items the business owns that it will keep for more than one year, such as buildings, vans, computers, machinery and so on.

Current Assets[2] are all the valuable items the business owns that it will keep for less than one year, such as stock (right now, your local Penneys has a lot of clothes and other products in stock, but it will sell all of this within the next couple of weeks/months), debtors (right now, a business is owed money by its customers for goods sold to them on credit, but they will pay up within the next month), bank balance, cash and so on.

Before adding these two assets together, the accountant works out one further calculation. She works out the business's **Working Capital**[4]. This is the money that the business has available to "work with", e.g. to pay any unexpected bills that may come in.

> If you have €5 with you now to pay for your lunch today and your lunch costs €4, we say that you have a working capital of €1. €4 of your €5 is already spoken for, so you have just €1 left to pay for anything else you need today.

In business, we subtract the current liabilities from the current assets to arrive at the working capital figure. **Current Liabilities**[3] are the loans the business owes that have to be repaid within one year, such as bank overdrafts, creditors (suppliers the business owes money to, for goods bought from them on credit; the business will have to pay these suppliers within the next month) and so on.

> In the example of the balance sheet for Malik Ltd, the company currently has €30,000 (current assets are €30,000), but it owes €5,000 of this (current liabilities are €5,000), so it really only has €25,000 left over to pay any other, unexpected bills (unexpected repairs, for example) that may come in.

Working Capital[4] shows the cash left over in the business to pay any bills that may come in. It is the difference between the business's current assets and its current liabilities.

The fixed assets number and the working capital number are then added together. The total of these two (called **Total Net Assets**) gives the entrepreneur an idea of how much her business may be worth, if she were to sell it.

The bottom part of the balance sheet (known as **Financed By**[5]) shows exactly where the entrepreneur gets the money to finance her business. There are two main sources of finance or capital for a business:

1. The entrepreneur herself and other investors can provide the capital. This is known as "**Equity Capital**" and comprises "issued ordinary share capital" and "retained earnings".

   Issued Ordinary Share Capital[6] (also called equity share capital) is the amount of money that the shareholders paid into the business by way of investment. In return for this money, they now own a part of or a share in the business. Each share owned carries one vote at company meetings and entitles the owner to a share of company profits.

   Note that in business, there are two types of share capital – "authorised" is the maximum number of shares the company is ever allowed to sell; "issued" is the amount of this that it has actually sold so far.

   Retained Earnings[7] (also called reserves) are the total amount of profits previously made by the business over the years that the investors did not take out as dividends, but instead decided to reinvest in the business.

2. The entrepreneur can borrow money from banks and other lenders. This is known as "**Debt Capital**" and comprises "Long-term Loans" and "Preference Shares".

   Long-term Loans[8] are the amounts of money borrowed by the business that it has more than one year to repay.

   Preference Shares[9] are a very rare type of share that are more like a loan than a share. That is why it is included in "debt capital".

The total of "Equity Capital" and "Debt Capital" is called "**Capital Employed**".

Importance of the Balance Sheet

The balance sheet is an important document for managers because:

1. The value of the business's fixed assets tells managers the amount of security (collateral) that the business has to offer a bank when applying for a loan.
2. The working capital figure tells the manager whether the business has enough cash available to pay any bills that may come in, in the near future. If not, the business is said to be illiquid. It will not have enough funds to pay its bills as they fall due. This will lead to a bad reputation with suppliers, and they may insist on payment upfront in the future. The business will not have the funds to buy in bulk and therefore cannot avail of discounts. It will not enjoy economies of scale. The manager must then set about generating more cash.
3. The "Financed By" section of the balance sheet tells a manager whether the business can get another loan. If there are a lot of loans in the "Financed By" part of the balance sheet, it tells the manager that it may be harder to borrow any more money as banks may be unwilling to lend to a business that already has a lot of unpaid loans.

Ratio Analysis

We have looked in detail at a business's final accounts. The next thing to study is the numbers in the accounts, which tell us if a business doing well or badly.

The way we judge this is by calculating certain ratios and judging these ratios against previous years' ratios or ratios of another business.

There are three sets of ratios that we have to calculate:

1. Profitability ratios
2. Liquidity ratios
3. Debt/equity ratio

Profitability Ratios

Profitability examines whether the profit made by the business is good or bad for the size of the business. There are three formulae to measure a business's profitability:

1. Gross profit percentage
2. Net profit percentage
3. Return on investment

GROSS PROFIT PERCENTAGE OR GROSS PROFIT MARGIN	
Formula	**[Gross Profit ÷Sales] × 100**
Explanation	■ We look at how good the gross profit number is by judging it against the size of the business's sales figure. ■ For example, a 10% gross profit percentage means that for every €100 product the business sells a customer, €10 of this amount is its gross profit. ■ However, we can only judge if this is good or bad by comparing it with something such as the figure from last year.
Increasing ratio from one year to the next	■ If the gross profit % increases from one year to the next, this is a good trend. ■ It means that the business is making relatively more gross profit than last year. ■ Because gross profit is made up from [Sales - Cost of Sales] as we saw earlier, one or both of these explains why the increase happened. ■ Either the business increased its selling price over the year and/or it now pays less to make/buy its products.
Decreasing ratio from one year to the next	■ If the gross profit percentage decreases from one year to the next, this is a bad trend. ■ It means that the business is making relatively less gross profit than last year. ■ Because gross profit is made up from [Sales - Cost of Sales] as we saw earlier, one or both of these explains why the decrease happened. ■ Either the business decreased its selling price over the year (for example, during Ireland's economic downturn, many businesses dropped their prices to entice customers to spend) and/or it now pays more to make/buy its products.

The accountant in Alpha Ltd has prepared the following figures for the business:

	2025	2026
Sales	€400,000	€500,000
Gross Profit	€100,000	€120,000

You are required to calculate the gross profit percentage for both years and to analyse the trend in profitability in the business.

	[Gross Profit ÷ Sales] × 100	Answer:
2025	[100,000 ÷ 400,000] × 100 =	**25%**
2026	[120,000 ÷ 500,000] × 100 =	**24%**

Exam Tip!

For questions like the one in the example above, make sure to write out the formula and express your answer(s) as a percentage! When commenting on the ratio, write out four sentences as follows:

1. State whether this year's percentage has increased or decreased from last year's.
2. State whether this is a good or bad trend.
3. State a reason why the increase/decrease may have happened.
4. Offer a solution to the increase/decrease.

1. In the example above, gross profit percentage in Alpha Ltd has decreased from 25% in 2025 to 24% in 2026.
2. This is a bad trend because it means that the business is making a smaller profit on each product than last year.
3. The reason for this decrease in profit is that the cost price the business pays for its products has increased because the supplier has increased his prices.
4. The business should shop around and buy from a cheaper supplier in future, so that the gross profit margin will increase next year.

NET PROFIT PERCENTAGE OR NET PROFIT MARGIN	
Formula	**[Net Profit ÷Sales] × 100**
Explanation	■ We look at how good the net profit number is by judging it against the size of the business's sales figure. ■ For example, a 6% net profit percentage means that for every €100 product the business sells a customer, it gets to keep €6 of this amount for itself. ■ However, we can only judge if this is good or bad by comparing it with something such as the figure from last year.

Increasing ratio from one year to the next	■ If the net profit percentage increases from one year to the next, this is a good trend. ■ It means that the business is making relatively more net profit than last year. ■ Because net profit is made up from [Gross Profit - Expenses] as we saw earlier, the business's **expenses** explain why the increase happened. ■ If the net profit percentage increased, this was because the business's expenses decreased.
Decreasing ratio from one year to the next	■ If the net profit percentage decreases from one year to the next, this is a bad trend. ■ It means that the business is making relatively less net profit than last year. ■ Because net profit is made up from [Gross Profit – Expenses] as we saw earlier, the business's **expenses** explain why the decrease happened. ■ If the net profit percentage decreased, this was because the business's expenses must have increased. ■ The business must immediately make cuts to its expenses by asking workers to take a voluntary pay cut, for example.

The accountant in Alpha Ltd has prepared the following figures for the business:

	2025	2026
Sales	€400,000	€500,000
Net Profit	€60,000	€70,000

You are required to calculate the net profit percentage for both years and to analyse the trend in profitability in the business.

	[Net Profit ÷ Sales] × 100	Answer:
2025	[60,000 ÷ 400,000] × 100 =	15%
2026	[70,000 ÷ 500,000] × 100 =	14%

Exam Tip!

For questions like the one in the example above, make sure to write out the formula and express your answer(s) as a percentage!

When commenting on the ratio, write out four sentences as follows:

1. State whether this year's percentage has increased or decreased from last year's.
2. State whether this is a good or bad trend.
3. State a reason why the increase/decrease may have happened.
4. Offer a solution to the increase/decrease.

1. The net profit percentage in Alpha Ltd has decreased from 15% in 2025 to 14% in 2026.
2. This is a bad trend because it means that the business is less profitable than last year.
3. The reason for this is that the business's expenses have increased.
4. The business should make cutbacks in its expenses by asking all employees to take an immediate pay cut.

<table>
<tr><th colspan="2">RETURN ON INVESTMENT (ROI) OR RETURN ON CAPITAL EMPLOYED</th></tr>
<tr><td>Formula</td><td>[Net Profit ÷Capital Employed] × 100</td></tr>
<tr><td>Explanation</td><td>
■ We can look at how good the net profit number is another way – by judging it against the total amount of money invested in the business (called capital employed, which is [Issued Ordinary Share Capital + Retained Earnings/ Reserves + Long-term Loans + Preference Shares]).
■ For example, a 7% ROI means that for every €100 invested in the business, the business made €7 profit back in a year. Is this good or bad?
■ We can compare the business's ROI to that offered by the Irish government (roughly 2%). This means that the Irish government will pay investors 2% ROI if they invest in government bonds which have little risk.
■ Therefore, if a business's ROI is less than 2%, this is considered unsatisfactory as it is not providing much reward for all the risks of setting up a business.
■ Furthermore, if a business's ROI is greater than the cost of borrowing money, it makes sense for the business to borrow to expand.</td></tr>
<tr><td>Increasing ratio from one year to the next</td><td>
■ If the ROI increases from one year to the next, this is a good trend. It means that the business is making a better return than last year.
■ The business's managers improved their performance over the year. They made more money this year from the business resources than last year.</td></tr>
<tr><td>Decreasing ratio from one year to the next</td><td>
■ If the ROI decreases from one year to the next, this is a bad trend. It means that the business is making a lower return than last year.
■ The business's managers performed badly over the year. They made less money this year from the business resources than last year. The owners could consider replacing the managers with better ones. They need to reduce the company's capital employed or increase its net profit by immediately introducing cost-cutting measures such as voluntary pay cuts.</td></tr>
</table>

The accountant in Alpha Ltd has prepared the following figures for the business:

	2025	2026
Issued Ordinary Share Capital	€300,000	€300,000
Retained Earnings	€100,000	€150,000
Long-term Loans	€200,000	€300,000
Net Profit	€60,000	€70,000

You are required to calculate the return on investment for both years and to analyse the trend in profitability in the business.

	[Net Profit ÷ Capital Employed] × 100	Answer:
2025	[60,000 ÷ (300,000 + 100,000 + 200,000)] × 100 =	**10%**
2026	[70,000 ÷ (300,000 + 150,000 + 300,000)] × 100 =	**9.33%**

Note: Look back to page 181 to see how "Capital Employed" is calculated. There are no preference shares in this question, so I just left it out of my answer.

Exam Tip!

For questions like the one in the example, make sure to write out the formula and express your answer(s) as a percentage!

When commenting on the ratio, write out four sentences as follows:

1. State whether this year's percentage has increased or decreased from last year's.
2. State whether this is a good or bad trend and compare it to the 2% ROI available from the government.
3. State a reason why the increase/decrease may have happened.
4. Offer a solution to the increase/decrease.

1. The return on investment in Alpha Ltd has decreased from 10% in 2025 to 9.33% in 2026.
2. This is a bad trend because the business is making a lower return for the investors than last year. Shareholders would use this information and decide to sell their shares in the business to obtain a decent return elsewhere.

   However, in both years, the return is still higher than the return available on government investments of roughly 2%.
3. The reason for this decrease is that the directors are doing a worse job of using the business's capital to generate profits.
4. The shareholders should replace the directors with ones better able to manage the resources of the business to generate profits – ones who can reduce the capital employed and/or increase net profit by introducing cutbacks.

Who is Interested in a Business's Profitability Ratios?

STAKEHOLDER	REASONS FOR INTEREST
Investors/ Shareholders	If the business's profitability ratios are improving, this means that they are likely to receive good dividends into the future, and so they will be more likely to invest in the business. They will be especially interested in the business's ROI which they will compare with the returns available from other investment opportunities.
Employees	If the business's profitability ratios are improving, this means: ■ Their jobs are more likely to be secure. ■ They may receive a pay rise.
Lenders/Banks	If the business's profitability ratios are improving, this means that the business is more likely to be able to repay the interest on their loans.
Government	If the business's profitability ratios are improving, this means that they are likely to receive higher tax revenues from the business.
Competition	If the business's profitability ratios are improving, this means that the business is proving a threat to them, and they may copy the business's successful ideas.

Liquidity Ratios

Liquidity examines whether the business has enough cash available to pay its short-term bills (such as electricity, rent, wages, etc.) when they are due to be paid. There are two liquidity ratios we can work out – the current ratio and the acid test ratio.

CURRENT RATIO OR WORKING CAPITAL RATIO	
Formula	**Current Assets ÷ Current Liabilities**
Explanation	■ We look to see if the business has *enough* cash by comparing its current assets with its current liabilities. ■ The ideal ratio is 2:1. ■ This means that a business should have twice the amount that it owes. ■ If the ratio is less than this, we say that the business is illiquid. ■ The working capital ratio is important because it tells a manager the following: ♦ If the ratio is less than 2:1, the business does not have enough cash to pay its bills as they come in. This can be corrected by selling investments to raise the cash needed. ♦ If the ratio is much higher than 2:1, the business has too much spare cash lying around. It should invest this excess cash to make a profit from it.
Increasing ratio from one year to the next	■ This is a **good** trend. ■ The business has relatively more cash than last year. ■ The reason may be that it paid off some of its bank overdraft.
Decreasing ratio from one year to the next	■ This is a **bad** trend. ■ The business has relatively less cash than last year. ■ It may have difficulty paying its bills on time. ■ This could lead to creditors cutting off the business's credit. ■ The reason may be that the business increased its bank overdraft and spent all the money it borrowed. ■ The business should sell any investments that it has (shares in other businesses, etc.) to increase the amount of cash it has.

Calculate the current ratio of Beta Ltd for both years from the following figures and analyse the trend in the firm's liquidity.

	2025	2026
Current Liabilities	€100,000	€140,000
Current Assets	€200,000	€230,000

	Current Assets ÷ Current Liabilities	Answer:
2025	[200,000 ÷ 100,000] =	**2:1**
2026	[230,000 ÷ 140,000] =	**1.64:1**

Exam Tip!

Make sure to write out the formula and express your answer(s) as a ratio!

When commenting on the ratio, write out five sentences as follows:

1. State whether this year's ratio has increased or decreased from last year's.
2. State whether this is a good or bad trend.
3. Compare the ratios you worked out with the ideal ratio of 2:1.
4. State a reason why the increase/decrease may have happened.
5. Offer a solution to the increase/decrease.

1. The working capital ratio in Beta Ltd has decreased from 2:1 in 2025 to 1.64:1 in 2026.
2. This is a bad trend because the business has fewer current assets available to pay its short-term debts than last year.
3. The ratio in 2025 was the ideal of 2:1, but in 2026 it was less than the ideal 2:1. In 2026, the company is illiquid and is unable to repay its short-term debts as they fall due.
4. The reason for this is that perhaps the business increased its overdraft and spent all the money.
5. The business should sell off any investments it owns, to raise cash to improve its liquidity.

ACID TEST RATIO	
Formula	**[Current Assets – Closing Stock] ÷ Current Liabilities**
Explanation	■ We look at how much cash the business has in an emergency situation, i.e. one where it has to pay its bills *immediately*. ■ The formula is almost identical to the working capital ratio with one important difference – we exclude closing stock from current assets. This is because it is the hardest current asset to turn into cash really quickly. ■ The ideal ratio is 1:1. ■ This means that when we exclude stock, a business should have exactly the amount that it owes. ■ If the ratio is less than this, we say that the business is illiquid. ■ The acid test ratio is important because it tells a business the following: ♦ It lets a business know its liquidity position in an emergency situation. If creditors want paying *immediately*, stock is little or no use as it is very hard to turn into cash quickly. Therefore, this ratio takes stock out of the equation to see how the business can cope. If the ratio is less than 1:1, the business is illiquid. It does not have enough cash to pay its bills. This means that the business may lose its credit rating and find it hard to get supplies on credit. This can be corrected by having a sale to sell stock to raise cash. ♦ If the ratio is 1:1 or higher, the business is liquid and has no difficulty paying bills on time. It lets the business know that it is good at managing its cash flow and is not paying its bills too early.
Increasing ratio from one year to the next	■ This is a **good** trend. ■ The business has relatively more cash than last year. ■ The reason may be that it paid off its overdraft.

Decreasing ratio from one year to the next	
	- This is a **bad** trend. - The business has relatively less cash than last year. - It may have difficulty paying its bills on time. - This could lead to creditors cutting off the business's credit. - The reason may be that the business bought a large amount of stock during the year which remains unsold, thus tying up a lot of cash in stock. - The business should have a sale to sell as much stock as possible to raise the cash needed.

Calculate the acid test ratio of Beta Ltd for both years from the following figures and analyse the trend in the firm's liquidity.

	2025	2026
Current Liabilities	€100,000	€140,000
Current Assets	€200,000	€230,000
Closing Stock	€100,000	€160,000

	[Current Assets – Closing Stock] ÷ Current Liabilities	Answer:
2025	[200,000 – 100,000] = 100,000 ÷ 100,000 =	**1:1**
2026	[230,000 – 160,000] = 70,000 ÷ 140,000 =	**0.5:1**

Exam Tip!

Make sure to write out the formula and express your answer(s) as a ratio!

When commenting on the ratio, write out five sentences as follows:

1. **State whether this year's ratio has increased or decreased from last year's.**
2. **State whether this is a good or bad trend.**
3. **Compare the ratios you worked out with the ideal ratio of 1:1.**
4. **State a reason why the increase/decrease may have happened.**
5. **Offer a solution to the increase/decrease.**

1. The acid test ratio in Beta Ltd has decreased from 1:1 in 2025 to 0.5:1 in 2026.
2. This is a bad trend because the business has fewer liquid assets available to pay its short-term debts than last year.
3. The ratio in 2025 was the ideal 1:1, but in 2026 it was less than the ideal of 1:1. This means that the company is illiquid and is unable to repay its short-term debts as they fall due in 2026.
4. The reason for this is that stock levels have increased a lot over the year. A lot of the business's cash is tied up in stock.
5. The business should have a sale and cut its prices to get rid of some of this stock to raise cash to bring the ratio back up to 1:1.

Who is Interested in a Business's Liquidity Ratios?

A business's liquidity is of interest to many stakeholders in the business as follows:

STAKEHOLDER	REASONS FOR INTEREST
Suppliers	If the business's liquidity ratios are improving, this means that the business is more likely to be able to pay its invoice (bill) in full and on time.
Employees	If the business's liquidity ratios are improving, this means that their jobs are more likely to be secure and that they are more likely to be paid their wages on time.
Lenders/Banks	If the business's liquidity ratios are improving, this means that the business is more likely to be able to repay the loan and the interest on it in full and on time.
Government	If the business's liquidity ratios are improving, this means that the business is more likely to be able to pay its taxes in full and on time.

Debt/Equity Ratio

The debt/equity ratio examines how a business is financed. It shows how much of the capital has come from long-term loans and how much has come from the shareholders (through issued share capital plus reserves/retained earnings).

It indicates how much long-term debt the business is carrying and whether this is too much or not. Too much long-term debt is bad for a business.

DEBT/EQUITY RATIO	
Formula	[Long-term Loans + Preference Shares] ÷ [Issued Ordinary/Equity Share Capital + Reserves/Retained Earnings]
Explanation	■ The debt/equity ratio examines how much in debt a business is by comparing how much money it has borrowed in long-term loans (debt capital) with the amount the owners of the business invested in it (equity capital). ■ Equity capital is the total amount of money invested by the owners of the business. It consists of the original amount of money the owners put into the business (issued ordinary/equity share capital) and all the profits that the owners reinvested in the business (retained earnings). ■ There is no ideal ratio. ■ The debt/equity ratio is important because it tells a manager the following: ♦ The debt/equity ratio lets the manager know how much the business has borrowed relative to how much the owners have invested. She can work out if the business is high, low or neutral geared. **LOW GEARING** **Debt < Equity [Formula answer < 1:1]** This means that the business has borrowed less money than the shareholders have invested. **NEUTRAL GEARING** **Debt = Equity [Formula answer = 1:1]** This means that the business has borrowed exactly the same amount as the shareholders have invested. **HIGH GEARING** **Debt > Equity [Formula answer >1:1]** This means that the business has borrowed more money than the shareholders have invested. ♦ The debt/equity ratio lets a manager know how much interest she can expect the business will have to pay back. For example, if the ratio is much greater than 1:1 (high geared), the business will have a lot of interest to pay back. This may reduce the business's profits. ♦ The debt/equity ratio lets a manager know if the business is in danger of going bankrupt. For example, if the ratio is much greater than 1:1 (high geared), the business will have a lot of loans to pay back. If the business cannot afford to pay back all its loans, the lenders will take it to court and get a judge to close it down and sell it off to repay the lenders. Thus, high gearing increases the risk of the business going bankrupt. ♦ The debt/equity ratio lets a manager know if the business is able to take out more loans or not. For example, if the ratio is much greater than 1:1 (high geared), the business has a lot of loans to pay back. The business will find it difficult to get a new loan until the old ones are repaid. This is because the bank considers businesses with lots of unpaid loans a high risk.

Increasing ratio from one year to the next	■ This is a **bad** trend. ■ The business has relatively more long-term loans outstanding than last year. ■ The reason may be that the business took out another long-term loan. ■ The business should sell more shares to reduce its debt/equity ratio.
Decreasing ratio from one year to the next	■ This is a **good** trend. ■ The business has relatively fewer long-term loans outstanding than last year. ■ The reason may be the business paid back a long-term loan and/or sold some more shares in the business. ■ The business should continue with this strategy.

Calculate the debt/equity ratio of Gamma Ltd for both years from the following figures and analyse the trend in the firm's gearing.

	2025	**2026**
Equity Share Capital	€12,000	€15,000
Long-term Debt	€4,000	€45,000
Retained Earnings (Reserves)	€3,000	€7,500

	[Long-term Debt + Preference Shares] ÷ [Equity Shares + Retained Earnings]	Answer:
2025	[4,000 + 0] ÷ [12,000 + 3,000] = 4,000 ÷ 15,000 =	**0.27:1**
2026	[45,000 + 0] ÷ [15,000 + 7,500] = 45,000 ÷ 22,500 =	**2:1**

Exam Tip!

Make sure to write out the formula and express your answer(s) as a ratio!

When commenting on the ratio, write out four sentences as follows:

1. State whether this year's ratio has increased or decreased from last year's.
2. State whether this is a good or bad trend.
3. State a reason why the increase/decrease may have happened.
4. Offer a solution to the increase/decrease.

1. The debt/equity ratio in Gamma Ltd has increased from 0.27:1 in 2025 to 2:1 in 2026.
2. This is a bad trend because it means that the business has relatively more long-term debt.
3. The reason for it is that the business increased its long-term loans. Increased levels of borrowing mean more interest to repay and a higher chance of bankruptcy.
4. The business should sell more shares to lower its debt/equity ratio.

Who is Interested in a Business's Debt/Equity Ratio?

STAKEHOLDER	REASONS FOR INTEREST
Investors/ Shareholders	If the business's debt equity ratio is increasing, this means that more of its profits are being used to pay interest resulting in fewer dividends for investors. Investors will therefore be less likely to buy shares in the business.
Employees	If the business's debt equity ratio is increasing, this means: Their jobs are less likely to be secure because of the increased risk of bankruptcy They are less likely to get a pay rise as the business has to pay more interest
Suppliers	If the business's debt equity ratio is increasing, this means that the business is more likely to go bankrupt and less likely to pay their invoice.
Government	If the business's debt equity ratio is increasing, this means that the business is more likely to go bankrupt and less likely to pay its tax bill.

Limitations of Ratios

While accounting ratios help a manager to spot problems in the business and may indicate how to solve them, they do have certain limitations, as follows:

1. Ratios analyse historical figures only. They only show what has happened in the past. They may not be true indicators of what will happen in the future.
2. Different businesses may calculate accounting figures differently. A business might change its method of calculation from one year to the next. Therefore, comparing ratios may not always be accurate.
3. Ratios give a limited picture of a business. They only show financial information. They do not give any insight into important aspects of a business, such as staff morale or employer–employee relationships.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. P&L
2. Balance sheet
3. Fixed assets
4. Current assets
5. Current liabilities
6. Expenses

Column 2: Explanations
(a) Bills that have to be paid by a business, such as wages, rent, interest on loans and so on
(b) Assets owned by a business that it will have for more than one year
(c) Debts owed by a business that must be repaid within one year
(d) Financial statement showing assets and liabilities of a business
(e) Profit and Loss (Account)
(f) Assets owned by a business that it will keep for less than one year
(g) Debts owed by a business that take longer than one year to be repaid

1	2	3	4	5	6

2. The following information is taken from the final accounts of Zeta Ltd.
Sales €100,000
Cost of Sales €40,000
Calculate (i) the gross profit and (ii) the gross profit percentage.

3. The following information is taken from the final accounts of Lambda Ltd.
Sales €40,000
Gross Profit €10,000
Net Profit €8,000
Calculate (i) the gross profit percentage and (ii) the net profit percentage.

4. The following information is taken from the final accounts of Delta Ltd.
Sales €500,000
Gross Profit €300,000
Net Profit €200,000
Calculate (i) the gross margin and (ii) the net margin.

5. The following information is taken from the final accounts of Epsilon Ltd.
Sales €300,000
Gross Profit €150,000
Expenses €120,000
Calculate (i) the net profit and (ii) the net profit percentage.

6. The following information is taken from the final accounts of Sigma Ltd.
Current Assets €60,000
Current Liabilities €42,000
Calculate (i) the working capital and (ii) the working capital ratio.

7. The following information is taken from the final accounts of Theta Ltd.
Current Assets €900,000
Current Liabilities €540,000
Calculate (i) the working capital and (ii) the working capital ratio.

8. The following information is taken from the final accounts of Iota Ltd.
   Current Assets €800,000
   Current Liabilities €480,000
   Closing Stock €320,000
   Calculate (i) the working capital ratio and (ii) the acid test ratio.
9. The following information is taken from the final accounts of Kappa Ltd.
   Current Assets €50,000
   Current Liabilities €22,000
   Closing Stock €26,000
   Calculate (i) the working capital ratio and (ii) the acid test ratio.
10. The following information is taken from the final accounts of Mu Ltd.
   Equity Capital €750,000
   Long-term Debt €500,000
   Retained Earnings €250,000
   Calculate the debt/equity ratio.
11. The following information is taken from the final accounts of Nu Ltd.
   Equity Capital €18,000
   Long-term Debt €36,000
   Retained Earnings €2,000
   Calculate the debt/equity ratio.
12. The following information is taken from the final accounts of Xi Ltd.
   Equity Capital €120,000
   Long-term Debt €360,000
   Retained Earnings €480,000
   Calculate the debt/equity ratio.

EXAM SECTION 2 – LONG QUESTIONS

1. The following figures are available for Alpha Ltd.

	2025	2026
Sales	€100,000	€120,000
Gross Profit	€60,000	€66,000
Net Profit	€40,000	€32,000

   (a) Calculate the gross profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. (30 marks)
   (b) Calculate the net profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. (30 marks)

2. The following figures are available for Pi Ltd.

	2025	2026
Net Profit	€800	€1,250
Sales	€20,000	€25,000
Gross Profit	€1,600	€2,500

   (a) Calculate the gross profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. (30 marks)
   (b) Calculate the net profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. (30 marks)

3. The following figures are available for Rho Ltd.

	2025	2026
Sales	€400,000	€600,000
Capital Employed	€800,000	€950,000
Net Profit	€200,000	€150,000

(a) Calculate the net profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the return on capital employed for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

4. The following figures are available for Sigma Ltd.

	2025	2026
Capital Employed	€500,000	€750,000
Net Profit	€25,000	€30,000
Sales	€75,000	€100,000

(a) Calculate the net profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the return on investment for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

5. The following figures are available for Tau Ltd.

	2025	2026
Net Profit	€450	€1,000
Sales	€1,800	€4,000
Capital Employed	€10,000	€12,000

(a) Calculate the net profit percentage for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the return on investment for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

6. The following figures are available for Upsilon Ltd.

	2025	2026
Current Assets	€200,000	€300,000
Current Liabilities	€100,000	€180,000
Closing Stock	€100,000	€160,000

(a) Calculate the working capital ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the acid test ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

7. The following figures are available for Phi Ltd.

	2025	2026
Current Liabilities	€42,000	€64,000
Current Assets	€84,000	€96,000
Closing Stock	€40,000	€48,000

(a) Calculate the working capital ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the acid test ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

8. The following figures are available for Chi Ltd.

	2025	2026
Current Assets	€600,000	€800,000
Closing Stock	€200,000	€320,000
Current Liabilities	€500,000	€400,000

(a) Calculate the working capital ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

(b) Calculate the acid test ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

9. The following figures are available for Psi Ltd.

	2025	2026
Equity Capital	€20,000	€30,000
Long-term Debt	€10,000	€60,000
Retained Earnings	€5,000	€6,000

Calculate the debt/equity ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

10. The following figures are available for Omega Ltd.

	2025	2026
Retained Earnings	€100,000	€120,000
Long-term Debt	€900,000	€450,000
Equity Capital	€500,000	€500,000

Calculate the debt/equity ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

11. The following figures are available for Sho Ltd.

	2025	2026
Equity Capital	€300,000	€320,000
Long-term Debt	€600,000	€10,000
Retained Earnings	€60,000	€80,000

Calculate the debt/equity ratio for 2025 and 2026 (showing the formula and all your workings) and comment on the trend. **(30 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "Profit and Loss Account" and "balance sheet".
2. Distinguish between "Cost of Sales" and "Expenses" of a business.
3. What is a fixed asset? Give **two** examples.
4. What is a current liability? Give **two** examples.
5. The following information is taken from the final accounts of A Ltd.

Sales	€100,000
Cost of Sales	€40,000
Expenses	€25,000

   Calculate (i) the gross profit percentage and (ii) the net profit percentage.

6. The following information is taken from the final accounts of B Ltd.

Expenses	€6,000
Cost of Sales	€50,000
Gross Profit	€10,000

   Calculate (i) the gross margin and (ii) the net margin.

7. The following figures relate to C Ltd.

	2025	2026
	€	€
Fixed Assets	1,500,000	2,000,000
Current Assets	600,000	550,000
Current Liabilities	400,000	350,000
Closing Stock	130,000	180,000

   Calculate the working capital ratio for both years.
   State whether the trend is improving or not and give one possible reason for this.

8. The following figures relate to D Ltd.

	2025	2026
	€	€
Ordinary Share Capital	50,000	60,000
Closing Stock	32,000	56,000
Current Assets	80,000	85,000
Current Liabilities	48,000	51,000

   Calculate the acid test ratio for both years.
   State whether the trend is improving or not and give one possible reason for this.

9. The following figures relate to E Ltd.

	2025	2026
	€	€
Closing Stock	6,000	12,000
Current Liabilities	4,000	9,000
Current Assets	10,000	15,000

Calculate the acid test ratio for both years.
Suggest two things the business can do to improve the trend.

10. The following figures relate to F Ltd.

	2025	2026
	€	€
Ordinary Share Capital	700,000	750,000
Long-term Debt	250,000	150,000
Creditors	160,000	80,000
Retained Earnings	50,000	75,000

Calculate the debt/equity ratio for both years.
State whether the trend is improving or not and give one possible reason for this.

11. The following figures relate to G Ltd.

	2025	2026
	€	€
Reserves	10,000	22,000
Equity Share Capital	40,000	48,000
Bank Overdraft	20,000	11,000
Long-term Loans	100,000	10,000

Calculate the debt/equity ratio for both years.
State whether the trend is improving or not and give one possible reason for this.

12. The following figures relate to H Ltd.

	2025	2026
	€	€
Reserves	25,000	35,000
Ordinary Share Capital	175,000	255,000
Fixed Assets	600,000	750,000
Long-term Loans	40,000	500,000

Calculate the debt/equity ratio for both years.
State whether the trend is improving or not and give one possible reason for this.

EXAM SECTION 3 – LONG QUESTIONS

1. The accountant in Eye Ltd has prepared the following figures for the business:

	2026	2025
	€	€
Issued Ordinary Share Capital	150,000	150,000
Authorised Ordinary Share Capital	900,000	900,000
Long-term Loans	75,000	200,000
Retained Earnings	175,000	150,000
Sales	100,000	120,000
Net Profit	35,000	38,000
Cost of Sales	40,000	24,000

You are required to:

(a) Calculate the gross profit percentage, the net profit percentage and the return on investment for both years.

(b) Analyse the trend in profitability in the business. **(40 marks)**

2. The accountant in Jay Ltd has prepared the following figures for the business:

	2026	2025
	€	€
Gross Profit	3,000	4,000
Issued Ordinary Share Capital	15,000	15,000
Bank Overdraft	8,000	6,000
Long-term Loans	3,000	7,000
Retained Earnings	2,000	3,000
Expenses	2,000	1,500
Sales	6,000	7,000

You are required to:

(a) Calculate the gross margin, the net margin and the return on capital employed for both years.

(b) Analyse the trend in profitability in the business. **(40 marks)**

3. Calculate the current ratio and the acid test ratio of Kay Ltd for both years from the following figures and analyse the trend in the firm's liquidity. **(20 marks)**

	2025	2026
	€	€
Current Assets	€15,000	€18,000
Current Liabilities	€11,000	€8,500
Closing Stock	€8,000	€8,700

4. Calculate the current ratio and the acid test ratio of Elle Ltd for both years from the following figures. Analyse the trend and discuss how the firm's creditors might use this knowledge in making decisions. **(20 marks)**

	2025	2026
	€	€
Current Assets	€700,000	€450,000
Working Capital	€200,000	€210,000
Closing Stock	€380,000	€205,000

5. Calculate the current ratio, the acid test ratio, the gross profit margin and the net profit margin of Emm Ltd from the following figures for 2026 and 2025. Analyse the profitability and liquidity trends in the company. **(40 marks)**

	2026	2025
	€	€
Current Assets	150,000	130,000
Current Liabilities	100,000	65,000
Closing Stock	70,000	65,000
Sales	900,000	810,000
Gross Profit	400,000	540,000
Net Profit	100,000	180,000

6. From the figures given below, calculate the debt/equity ratio of Enn Ltd for both years and analyse any trends you notice from your calculations. **(20 marks)**

	2026	2025
	€	€
Equity Share Capital	20,000	25,000
Long-term Debt	60,000	5,000
Retained Earnings (Reserves)	10,000	5,000

7. Compute the debt/equity ratio of Oh Ltd for both years from the following figures. Analyse the trend and discuss how a potential lender might use this knowledge in deciding whether to lend the business more money. **(20 marks)**

	2026	2025
	€	€
Long-term Loans	€3,000,000	€300,000
Equity Share Capital	€900,000	€900,000
Retained Earnings	€100,000	€90,000

CHAPTER 12 INSURANCE AND TAXATION

LEARNING OUTCOMES

In this chapter, we will look at:

- Why businesses and households need insurance.
- The rules that apply in insurance.
- The types of insurance a business should have.
- The types of insurance a household should have.
- The main taxes paid by households.
- The main taxes paid by businesses.

Insurance

Insurance offers **financial protection** from **risks**. Businesses and households pay a relatively small premium to an insurance company every year for protection. If anything happens to them or their assets, the insurance company pays them money as compensation for the value of what they have lost. In this way, they do not lose any money.

You may be wondering how the insurance company makes a profit if it charges each business and household only a small premium every year and may have to pay out a fortune to them when they make a claim. The insurance company makes money by insuring a large number of businesses and households. It therefore takes in a lot of money. Bad situations such as theft and fires are thankfully rare and, therefore, only a small number of households and businesses make a claim each year. This means that the insurance company pays out less than it takes in and thus makes a profit.

Principles of Insurance

To protect themselves from being ripped off by people making false claims, insurance companies have certain rules. These are called the principles of insurance.

Principle of Insurance 1: Utmost Good Faith

This principle states that the business/household seeking insurance must **disclose all material information** to the insurer. Material information is defined as any information that would affect the insurance company's decision whether to insure the business/household and, if so, what premium to charge it.

A person seeking life assurance must tell the insurance company that she takes part in dangerous adventure sports.

If the insurance company later finds out that material information was withheld, the business/household will receive no compensation. The contract is null and void if this principle is not observed.

An **insurance proposal form** is an application form a person fills in when he wants to get something insured. It asks a lot of questions that must be answered truthfully. An actuary in the insurance company uses the answers to decide what risk the person is and then whether to insure that person and, if so, what premium to charge him.

An **insurance policy** is a document you get from the insurance company. It is your legal contract with it. It sets out what risks you are covered for and what you are not covered for. It tells you how much your annual premium is.

Principle of Insurance 2: Insurable Interest

This principle states that *you* can only insure something that *you* own. It must be something valuable to you. You must derive some benefit from it and you would lose money if anything happened to it. In insurance law, we say that the person must have a **legal relationship** with the item he is insuring.

You can insure your house, your car and so on. But you cannot insure the Empire State Building or the life of the President of the United States, because if anything happened to them, you would not lose any money.

When the golfer Tiger Woods's career ran into trouble and he lost a lot of sponsorship deals, his manager lost a lot of commission as a result. His manager was able to claim compensation from an insurance policy for this loss of earnings as he had an insurable interest in his client, Tiger Woods.

Principle of Insurance 3: Indemnity

This principle states that you **cannot make a profit** from an insurance claim. The compensation you receive is exactly equal to the value of the item you lost. So you are no better and no worse off after making the claim.

For example, Mercy bought a new car two years ago for €24,000. Its current value is €16,000. This morning, it was totally written off in a crash. A similar brand-new car would cost €28,000. Mercy submits a **claim form** to her insurance company as a result of the accident. How much compensation will she receive?

Answer: €16,000. Under the indemnity rule, she receives the value of what she lost. The car was worth €16,000, so she lost €16,000. The insurance company pays her €16,000. She is no better and no worse off after the claim.

An **insurance claim form** is a form filled in by the insured person when seeking compensation. In it, he sets out details of the asset, the damage to it, how the damage happened, the amount of compensation sought and so on. An assessor in the insurance company uses the claim form to decide how much compensation, if any, to pay out.

The indemnity rule means that there is no point in **over-insuring** an asset. Over-insurance is when you insure an item for *more* than it is actually worth. For example, a business insures a factory for €10,000,000 even though it is only worth €50,000. If this factory is totally destroyed in a fire today, how much compensation will the business receive?

The indemnity rule states that the business will receive €50,000 as this is the value of what it lost (even though it paid premiums for €10,000,000). Therefore, it makes no sense to over-insure an asset. Some people think that over-insuring an item is a handy way to make money, but the principle of indemnity prevents this.

The indemnity rule also affects businesses and households who **under-insure** an asset. This means that you insure an item for *less* than it is actually worth. You have inadequate insurance cover. For example, your factory is worth €200,000 but you only insure it for €100,000. This is very dangerous.

In the case of under-insurance, the insurance company uses a rule called the **average clause** to calculate the amount of compensation to pay out. It states that because you are only insured for a fraction of what the item is worth, you only receive that *same fraction* of any compensation. It is computed as follows:

$$\textbf{Claim} \times \frac{\textbf{How much the asset is insured for with the insurance company}}{\textbf{How much the asset is worth}}$$

Example 1

Darragh has his factory insured for €300,000. It is currently worth €500,000.
Yesterday there was a fire in the factory, causing damage of €6,000.
Darragh puts in a claim for €6,000.
How much compensation will Darragh receive? Explain your answer.

Answer

$$\text{Claim} \times \frac{\text{How much he insured the asset for with the insurance company}}{\text{How much the asset is worth}}$$

$$= €6{,}000 \times \frac{€300{,}000}{€500{,}000} = \textbf{€3,600}$$

Darragh will receive only €3,600 compensation from the insurance company.

Explanation

The principle of indemnity states that one cannot make a profit from insurance. Because Darragh's factory was not fully insured, he cannot get the full compensation. Because the factory is underinsured, the average clause applies. It states that because the factory is insured only for a fraction of its value (three fifths in this case), the business will receive only that fraction (three fifths) of any claim made.

Principle of Insurance 4: Contribution

This principle states that if you insure an asset against the **same risk** with **a number of insurance companies**, say five, you will *not* receive five times the compensation. Instead, each will pay you a fraction of the compensation in the ratio of the amount you were insured with each as follows:

$$\textbf{Claim} \times \frac{\text{How much the asset is insured for with this insurance company}}{\text{Total of the amounts the asset is insured for with all the insurance companies}}$$

Example 2

X Ltd insured its lorry with two insurance companies as follows:

	Insurer A	**Insurer B**
Value insured with each	€14,000	€16,000

Vandals caused €12,000 of damage to the lorry. X Ltd submits two claim forms for €12,000, one with Insurer A and one with Insurer B.

How much compensation will X Ltd receive from each company?

Explain your answer.

Answer

From Insurer A, X Ltd will receive:

$$\text{Claim} \times \frac{\text{How much X Ltd insured the asset for with } \textit{this} \text{ insurance company}}{\text{Total of the amounts X Ltd insured it for with all the insurance companies}}$$

$$= €12{,}000 \times \frac{€14{,}000}{€14{,}000 + €16{,}000}$$

$$= €12{,}000 \times \frac{€14{,}000}{€30{,}000} = \mathbf{€5{,}600}$$

From Insurer B, X Ltd will receive:

$$\text{Claim} \times \frac{\text{How much X Ltd insured the asset for with } \textit{this} \text{ insurance company}}{\text{Total of the amounts X Ltd insured it for with all the insurance companies}}$$

$$= €12{,}000 \times \frac{€16{,}000}{€14{,}000 + €16{,}000}$$

$$= €12{,}000 \times \frac{€16{,}000}{€30{,}000} = \mathbf{€6{,}400}$$

X Ltd will receive €5,600 compensation from Insurer A and €6,400 from Insurer B.

Explanation

Because X Ltd insured its lorry with two insurance companies, the insurance principle of contribution applies.

It states that each insurance company will pay X Ltd a proportion of the compensation in the ratio of the amount X Ltd was insured with each.

Example 3 – Higher Level Only

Tina's house is worth €280,000. She insured it with two insurance companies as follows:

	Insurer C	Insurer D
Value insured with each	€140,000	€70,000

A storm caused damage of €9,000, so Tina submitted a claim with both insurers for €9,000.

How much compensation will Tina receive from each company?

Answer

This question has two problems – she is insured against the same risk (her house) with two insurance companies (Principle of Contribution) *and* she is underinsured with each company (Average Clause).

The solution to this problem is to use the average clause and contribution formulae together as follows:

From Insurer C she receives:

$$\text{Claim} \times \underbrace{\frac{\text{How much she insured it for with } \textit{this} \text{ insurer}}{\text{Total of amounts she insured it for with } \textit{all} \text{ insurers}}}_{\text{Contribution}} \times \underbrace{\frac{\text{How much she insured it for with } \textit{this} \text{ insurer}}{\text{How much the asset is worth}}}_{\text{Average Clause}}$$

$$= €9{,}000 \times \frac{€140{,}000}{€140{,}000 + €70{,}000} \times \frac{€140{,}000}{€280{,}000}$$

$$= \mathbf{€3{,}000}$$

From Insurer D she receives:

$$\text{Claim} \times \underbrace{\frac{\text{How much she insured it for with } \textit{this} \text{ insurer}}{\text{Total of amounts she insured it for with } \textit{all} \text{ insurers}}}_{\text{Contribution}} \times \underbrace{\frac{\text{How much she insured it for with } \textit{this} \text{ insurer}}{\text{How much the asset is worth}}}_{\text{Average Clause}}$$

$$= €9{,}000 \times \frac{€70{,}000}{€140{,}000 + €70{,}000} \times \frac{€70{,}000}{€280{,}000}$$

$$= \mathbf{€750}$$

Tina will receive €3,000 compensation from Insurer C and €750 from Insurer D.

Principle of Insurance 5: Subrogation

This principle states that once the insurance company has given you full compensation for an item, that is *all* you can get. You **give up** all your **rights to further claims** on the item to the insurance company. The insurance company now owns the item, and it "owns" the right to claim compensation from the person who caused the damage.

If your bicycle worth €300 is destroyed in an accident and the insurance company pays you €300 in compensation, you *cannot*:

(a) Sell the wreck of the bicycle. The subrogation rule states that it now belongs to the insurance company. If you could sell it for, say, €20, you would be making a profit, which is not allowed under the principle of indemnity.

(b) Sue the person who caused the accident for the value of the bicycle. The subrogation rule takes this right away from you and gives it to the insurance company. They can try to reclaim the money from the person who caused the accident. If you could sue the person who crashed into you for another €300, you would be making a profit, which again breaks the principle of indemnity.

Insurance Premium

The premium is the **amount of money** that the business/household pays to the insurance company every year for its insurance cover. The amount of premium a business/household has to pay depends on the following factors:

Risk

- The greater the risk you are of claiming from the insurance company, the higher the premium you will be charged.
- The insurance company sometimes adds a loading for higher risk people and businesses. A loading is an extra charge added to the basic premium to cover such higher risks.

Inexperienced drivers pay higher car insurance premiums than those who have been driving a long time, because inexperienced drivers are more likely to have an accident and claim from the insurance company.

Smokers pay higher life assurance premiums than non-smokers because they are a higher risk of dying and claiming sooner.

People who live in Dublin pay higher house insurance premiums than people who live outside Dublin because they are a higher risk of claiming for theft and damage.

Value of the item

- The more valuable the asset, the higher the insurance premium.

Rita and Anna are twin sisters living in the same part of Kilkenny. Recently, each sister received a necklace from her partner for her birthday. Rita's necklace is worth €100. Anna's is worth €35,000. They both decide to insure their necklaces. Clearly, the insurance company will charge Anna a higher premium than Rita, because they will have to pay her a lot more money if her necklace is stolen.

Claims

- The more the insurance company pays out in compensation claims, the higher the premiums they will charge to cover their costs. If it pays out less, the premiums will go down.

During the Covid-19 pandemic, many motor insurance companies reduced their premiums to reflect the lower volume of claims due to the travel restrictions imposed during lockdowns.

- A household/business can lower its premium if it agrees to an excess. An excess amount means the household/business pays a portion of each claim, with the balance covered by the insurer.
- Generally, the rising cost of healthcare means that health insurance companies pay out more and more to hospitals and doctors for clients' medical bills. To cover these increased payouts, health insurance companies increase their premiums almost every year.

Profit	The insurance company charges a premium that gives it a decent profit. The premiums collected must exceed the amount paid out in claims.
Government tax	The government adds tax to the premium charged by the insurance company, thus increasing the cost for the consumer.

Example 4

Blessing wishes to insure her house for €300,000 and its contents for €40,000.

The insurance company tells her that the annual premiums are as follows:

Buildings: €2 for every €1,000 of cover

Contents: €3 for every €1,000 of cover

1. What premium will Blessing have to pay for her house and contents insurance?
2. Why does the insurance company charge a higher premium to insure the contents of the house rather than the house itself?

Answer

$$\textbf{Building premium} = \text{Premium} \times \frac{\text{How much she wants to insure it for}}{€1{,}000}$$

$$= €2 \times \frac{€300{,}000}{€1{,}000}$$

$$= €2 \times 300$$

$$= \textbf{€600} \text{ premium for the year}$$

$$\textbf{Contents premium} = \text{Premium} \times \frac{\text{How much she wants to insure it for}}{€1{,}000}$$

$$= €3 \times \frac{€40{,}000}{€1{,}000}$$

$$= €3 \times 40$$

$$= \textbf{€120} \text{ premium for the year}$$

1. Blessing will pay a total premium of €720 to the insurance company every year.
2. The insurance company charges a higher premium for the contents (€3 for the contents, but only €2 for the building) because there is a higher risk of something happening (theft, for example) to the contents than there is to the building.

Example 5

Ross wishes to insure his new car for €22,000. He is 19, has been driving for only six months, has a provisional license and lives in Dublin. He has no penalty points and has never been involved in an accident.

The insurance company tells him that the annual premium is €15 for every €1,000 of cover.

But it adds a loading as follows:

Driving less than one year	300%	Had a serious accident	1,000%
Provisional license	250%	2 or more penalty points	150%
Dublin driver	50%		

What premium will Ross have to pay?

Answer

Ross's premium starts off at:

$$€15 \times \frac{€22{,}000}{€1{,}000}$$

$$= €15 \times 22$$

$$= \mathbf{€330}$$

would be Ross's premium for the year, without loading.

However, because the insurance company believes Ross to be a higher risk than an average driver, they add a loading onto his premium as follows:

Basic premium (before any loadings are added):				€330
Add: Loading for Ross				
Provisional license		250%		
Driving less than one year		300%		
Dublin driver		50%		
Total loading		**600%**		
Add: Loading	= €330 Premium	× 600%	+	€1,980
Premium that Ross has to pay				**€2,310**

Insurances a Business Should Have

Because there are so many risks facing businesses, business people are strongly advised to take out the following insurance policies to protect themselves from such risks:

1. **Public Liability Insurance**

   This insurance protects the business if any member of the public is injured or his property is damaged due to the business's negligence while he is on the business's premises.

   It also protects the business against such claims if the business visits a member of the public's house; for example, when a salesperson calls out to do a demonstration in the person's home. The insurance company will pay the compensation awarded to the member of the public.

2. **Employer's Liability Insurance**

This insurance protects the business if an employee makes a claim against it because she was injured or made ill at work through the fault of his employer. The insurance company will pay the compensation to the employee.

> In 2011, a former employee of Petmania, (a pet store) in Limerick, who claimed that she contracted a rare disease from a parrot in the store that left her paralysed, secured a multi-million-euro settlement from the company to pay for the costs of her lifetime care.

3. **Product Liability Insurance**

This insurance protects a business that manufactures or sells a product to a customer that causes injury to him. The insurance company will pay the compensation to the customer.

It covers damages caused by a manufacturing defect in the product (such as lead paint in toys), a design flaw and defective warnings or instructions about the product (claims that the product was not properly labelled or had insufficient warnings for the consumer to understand the risk).

> In 1992, Stella Liebeck sued McDonald's when she spilled the coffee she had bought in McDonald's and it burned her legs. She was awarded millions of dollars.

4. **Fidelity Guarantee Insurance**

This is insurance cover for the business that protects it against financial losses it may suffer as a result of dishonest and fraudulent activities committed by an employee who abuses his position of trust to steal from the business.

It covers the business for an employee stealing from it (taking company property), embezzling money from it (for example, an accountant writing company cheques to a false "supplier" account that he himself controls), providing "inside information" to others to help them steal from the business or giving away the business's secrets.

> In 2011, an An Post employee in County Wexford was discovered to have stolen €1,750,000 from An Post to pay for his gambling addiction. An Post's insurance covered this massive loss.

5. **Motor Insurance**

If the business has cars, lorries or vans, under Irish law, it *must* get them insured. This insurance protects the business if one of its vehicles causes injury or damage.

There are three types of motor insurance, each of which covers different risks, as follows:

- Third Party – The insurance company pays only for any damage or injury caused to another person and his property by the business's vehicles. It will not pay any compensation for damage to the business's vehicle.

- Third Party, Fire and Theft – The insurance company pays compensation for any damage or injury caused to a third party and his property and also if the business's vehicle is stolen or burned out. It will not pay any compensation for any other damage to the business's vehicle.
- Comprehensive – The insurance company pays compensation for any damage or injury caused to the business's vehicle and to the person driving it and to any third party and his property. In other words, comprehensive insurance covers all risks.

6. Theft Insurance

The insurance company pays the business compensation for the value of any stock or other items that are stolen from the business.

7. Plate Glass Insurance

If the business's windows are damaged, the insurance company pays compensation to the business to get them fixed or replaced.

Importance of Insurance for a Business

- Having insurance means that the business will not be ended by some catastrophe (if the factory burned down, for example). The insurance company will give the business owner the money to **rebuild** her business, so that she can start again.
- Insurance helps a business with **risk management**. In return for an annual premium, the insurance company agrees to compensate them for the value of any losses they sustain. In this way, the entrepreneur transfers his risks to the insurance company. The business will not lose any money if these risks occur.
- Paying a relatively small insurance premium every year is a lot easier for a business to manage than having to pay out a large amount of money all in one go to pay for some unexpected crisis (such as replacing a stolen truck). It can therefore improve a business's **cash flow**.

Insurances a Household Should Have

Households also face risks and are therefore advised to take out the following insurance policies to protect themselves:

1. Health Insurance

This insurance pays the private medical bills (such as bills for doctors, cost of staying in a private hospital, medicines and so on) of the family members if they become ill and require medical treatment.

In Ireland, it is a law that everyone is charged the same premium for a particular health insurance plan, irrespective of their age, gender and the current or likely future state of their health (provided that they first take out health insurance before reaching the age of 35). This is called "lifetime community rating".

2. Life Assurance

Life assurance protects the people who are financially dependent on the insured person, such as a spouse and children. The insurance company pays a certain amount of compensation to the other members of the family when the insured person dies.

There are two main types of life assurance:

- **Whole Life Policies**: The insurance company pays out only when the insured person dies.
- **Endowment Policies**: The insurance company pays out at the earlier of two events – the death of the person or when she reaches a certain age that she nominated when she took out the policy.

3. House and Contents Insurance

The family takes out this kind of insurance to protect their home and all its contents. If their home is destroyed, the insurance company will pay to have it rebuilt. If their home is damaged, the insurance company will pay to have it repaired.

If the contents of the house (furniture, TV and so on) are damaged or stolen, the insurance company pays the family compensation for the loss suffered.

4. Motor Insurance

Motor insurance is compulsory by law. This means that if a family has a car, it must get it insured. The insurance company will pay for the damage or injury caused by the family's car.

Just like business motor insurance, there are three types of car insurance for households as follows:

1. Third Party
2. Third Party, Fire and Theft
3. Comprehensive

For more information about the types of car insurance see the section earlier on insurances a business should take out (pages 210–211).

5. Mortgage Protection Insurance

If an individual or a family has a mortgage loan on their house, they should take out this insurance. If they cannot pay their monthly mortgage repayment due to ill health, redundancy or death, the insurance company will pay it for them until they can afford to pay it themselves again.

Household and Business Insurance

We have looked at insurance for businesses and households. There are a number of similarities and differences between them.

SIMILARITIES	DIFFERENCES
■ Under Irish law, both businesses and households must take out motor insurance if they have a vehicle. It is an offence not to do so. They both must also display a valid insurance disc in the windscreen of their vehicle.	■ While households face risks, businesses face many more different types of risks than most households. These include employees or members of the public getting injured on their premises and the products they sell injuring customers. ■ For this reason, businesses have to take out many more insurance policies that households do not need, such as product liability insurance and employer's liability insurance.
■ Both a business and a household must fill in a proposal form when applying for insurance. They both must obey the principle of utmost good faith when doing so.	■ Businesses tend to be bigger than households and own more valuable assets than households such as equipment and machinery. ■ Therefore, they tend to pay much higher premiums than households because the greater the value of the item, the higher the premium chargeable.
■ Both make claims from the insurance company, and both must fill in claim forms to do so.	

Taxation

Taxation is the money that all businesses and households must pay to the government. The government uses this money to run the country's schools, hospitals and so on. The Minister for Finance decides the amount of taxes we pay and uses a government organisation called Revenue (short for Revenue Commissioners) to make sure that we all pay the correct amount of tax on time.

Reasons for Taxation

Governments impose taxes for a number of reasons:

1. **To Raise Money**
   A major reason why the government collects taxes from businesses and households is to raise money to pay for government services such as building roads, running schools and maintaining hospitals.

2. **To Redistribute Wealth**
   The government can use taxation to take money from well-off people and give it to the less well off. For example, in Ireland, the government takes a higher percentage of income tax from people on higher wages (this is called a **progressive tax** – a progressive tax is one where the percentage of tax payable increases as a person's income increases). It uses this money to pay welfare to people in need.

3. To Discourage Consumption

The government can impose high taxes on products that are bad for us, such as cigarettes, sugar and alcohol, to make them more expensive so that we buy less of them. Higher taxes on these goods are **regressive taxes** (a regressive tax is one where the percentage of tax payable decreases as a person's income increases) – the tax on a packet of cigarettes is a much larger percentage of a person on minimum wage's income than a doctor's income.

Taxes Paid by Households

There are many different types of taxes that Irish households pay, including the following:

1. Taxes on wages
   (a) Pay As You Earn (PAYE) Income Tax
   (b) Pay Related Social Insurance (PRSI)
   (c) Universal Social Charge (USC)
2. Value Added Tax (VAT)
3. Capital Gains Tax (CGT)
4. Capital Acquisitions Tax (CAT)
5. Deposit Interest Retention Tax (DIRT)
6. Motor Tax

1. (a) PAYE – Pay As You Earn

An employee pays income tax on her wages under the Pay As You Earn system. Under this system, her **employer** calculates the PAYE tax payable by the employee. He then **deducts** the PAYE tax from the employee's gross wages and pays it over to Revenue for her. The employer deducts the PAYE tax each time a payment of wages is made to the employee. The employee then receives the **net wage**.

The employer calculates the PAYE tax due by multiplying the employee's gross wage by the rate of PAYE tax and then deducting the employee's tax credits.

Tax credits are amounts that all income taxpayers, including employees, can deduct from their gross income tax bill. They directly reduce the amount of income tax that a person must pay, but they are not refundable. This means that if your tax credits are bigger than your income tax bill, you will not get a refund of the difference. You will simply owe no tax.

Some tax credits are fixed amounts, such as the personal tax credit given to single people or married couples. Others depend on the amount of money spent by the taxpayer, such as the tax credit for fees paid to third level colleges.

Different people qualify for **different** tax credits. For example, employees get an "employee/PAYE tax credit", while self-employed people get an "Earned Income Tax Credit". People aged 65 and older get an age tax credit. People with disabled children, people who are blind and people who take care of their sick relatives all get additional tax credits to further reduce the amount of tax they have to pay.

Example 1

Daniel's annual salary is €50,000. PAYE tax is paid as follows:

- First €40,000 @ 20% [Standard rate cut-off point = €40,000]
- Balance @ 40%

(This means that the first €40,000 is taxed at the 20% standard tax rate, and the remainder is taxed at the higher tax rate of 40%.)

Daniel's tax credits for the year are:

- Single Person Tax Credit €1,800
- Employee Tax Credit €1,200.

Compute Daniel's PAYE tax for the year.

ANSWER

PAYE = [Gross income × PAYE %] - Tax credits					**€**
€50,000	-	€40,000	×	20%	8,000
	-	€10,000	×	40%	4,000
					12,000
Subtract Tax Credits					(3,000)
Total PAYE to be deducted from his gross wages					9,000

Daniel's PAYE tax for the year is €9,000.

1. (b) PRSI – Pay Related Social Insurance

This is another tax taken out of an employee's wages by his employer and paid to Revenue on his behalf. The amount taken out is a percentage of the employee's gross wages.

Employees pay PRSI so that they can qualify for welfare benefits in the future, such as dental, optical and medical benefits, unemployment benefit and contributory old age pension.

Example 1 continued

Daniel's annual salary is €50,000. Daniel pays employee PRSI at 4% of his gross income.

Compute Daniel's PRSI for the year.

ANSWER

PRSI = [Gross income × PRSI%]			**€**
€50,000	×	4%	2,000

Daniel's PRSI tax for the year is €2,000.

1. (c) USC – Universal Social Charge

The Universal Social Charge (USC) is a tax payable on **all income** (not just wages). It was introduced in 2011, when Ireland was emerging from a major financial crisis, as a way to generate additional revenue for the government.

Employers must deduct the appropriate amount of USC from their employees' wages and pay it over to Revenue on their behalf. The amount payable is a percentage of the employee's gross wages.

The USC is a **progressive tax** (like PAYE) in that the greater a person's income, the higher the percentages of USC they pay. However, people with a very low income do not have to pay the USC at all.

Example 1 continued

Daniel's annual salary is €50,000. He pays USC at the following rates:

- First €12,000 at 1%
- Next €18,000 at 3%
- Remainder at 7%

Compute Daniel's USC tax for the year.

Answer

USC = [Gross income × USC %]					**€**
€50,000	-	€12,000	×	1%	120
	-	€18,000	×	3%	540
	-	€20,000	×	7%	1,400
Total USC to be deducted from gross wages					**2,060**

Daniel pays €2,060 in USC tax per year.

Example 1 continued

Now that we have calculated all three taxes that must be deducted from Daniel's wages, the next step is to calculate how much he actually receives into his hand. This is called net or take-home pay.

Answer

Net Pay =	**Gross Pay**	**- PAYE tax**	**- PRSI tax**	**- USC tax**
	€50,000	- €9,000	- €2,000	- €2,060
Answer	**€36,940**			

Daniel earns a gross salary of €50,000 but after his employer deducts the three taxes payable on his salary and pays these sums to Revenue for him, Daniel receives only €36,940 net.

P21 Form

Previously, there were many tax documents that an employee would receive from her employer and Revenue in relation to the taxes on her wages. Nowadays, all this information is available online on the Revenue website under the employee's "myAccount".

There is still a form that an employee can ask Revenue to send him, the **P21**:

- This is a document that Revenue gives an employee if he requests it.
- It shows him the difference between how much tax he paid that year and how much he actually owes for the year.
- If he overpaid tax, he will get a refund from Revenue.
- If he underpaid, he will have to pay the amount due to Revenue.
- The P21 is called an End-of-Year Statement.

2. **VAT – Value Added Tax**

This is a tax that households pay when they buy **products and services** from a business. The tax is a percentage of the price of the goods. The shopkeeper adds the VAT (there are different percentages for different goods and services) to the price and then charges the consumer the total price including the VAT. Therefore, VAT increases the prices households have to pay for goods and services.

When the customer pays, the shopkeeper takes out the amount of VAT and pays it over to Revenue for her. For this reason, VAT is known as an **indirect tax** – the tax is not levied on the person's income and is passed from one person to another.

An electrical shop decides to charge €1,000 for a TV	€1,000
By law, it must add VAT to this price (say 23%)	€230
And so the household ends up paying	**€1,230**

VAT is not charged on all products. Education, funerals, medicines and children's clothing are not liable to VAT. This makes these essential products more affordable for all.

3. **CGT – Capital Gains Tax**

This is a tax that households have to pay on the **profit** they make when they sell one of their **assets** (such as shares, holiday homes, investment properties, antiques and so on).

The Capital Gains Tax (CGT) payable is equal to a percentage of the profit. Households *themselves* have to work out how much CGT they owe Revenue, and they have to pay this amount to Revenue themselves by a certain deadline. If they do not, they are liable to pay interest and penalties to Revenue, in addition to the CGT they owe.

A small amount of the profits made in a year is tax free. This is called the annual exemption. In addition, a household does not have to pay any tax on any profit made from the sale of their family home.

Example 2

Kate bought shares in Z PLC for €5,000. She sold them for €11,000 five months later. Calculate the CGT payable by Kate if the rate of CGT is 33%.

Answer

	€
Kate sold the shares for:	11,000
Kate bought the shares for :	(5,000)
So, Kate made a profit on the shares of:	6,000
Kate will have to pay Revenue CGT of €6,000 ×33%:	**1,980**

4. CAT – Capital Acquisitions Tax

Capital Acquisitions Tax (CAT) is the tax a person pays on the value of a **gift** or an **inheritance** he has received. The CAT payable is a percentage of the value of the gift/inheritance.

However, he can receive a certain amount of gifts and inheritances tax-free. This tax-free amount depends on who gives him the gift/inheritance.

- Married couples do not pay any CAT on gifts and inheritances they receive from each other.
- You can receive a relatively large amount of gifts/inheritances tax-free from your parents over your lifetime, but once you exceed this limit, all future gifts/inheritances from them are fully liable to CAT.
- Smaller exemption limits apply to gifts/inheritances received from your grandparents, uncles and aunts, brothers and sisters.

The recipient of the gift/inheritance is responsible for working out the amount of CAT that he owes and is also responsible for paying this amount over to Revenue by a certain deadline. If he does not do this, he is liable to pay interest and penalties to Revenue, in addition to the CAT he owes.

5. DIRT – Deposit Interest Retention Tax

Deposit Interest Retention Tax is the tax that a household pays on the **interest** it earns on its **savings** in a bank or credit union deposit account.

The bank or credit union deducts the DIRT from the household's interest and pays it straight to Revenue for them. The household then receives the amount after tax called the net amount.

Vaida earns €100 interest on her bank deposit account.	€100
Before she receives this, the bank deducts DIRT (say 33%)	(€33)
So Vaida only gets the net interest of	**€67**
The bank must pay the €33 over to Revenue on Vaida's behalf.	

6. Motor Tax

Motor tax is a tax imposed on **motor vehicles.** Every household that has a car must pay this tax to their local council every year. For example, if you live in Wexford, you would pay your motor tax to Wexford County Council.

The amount of motor tax payable is determined by the car's CO_2 emission levels. The more pollution created by the car, the greater the amount of tax payable.

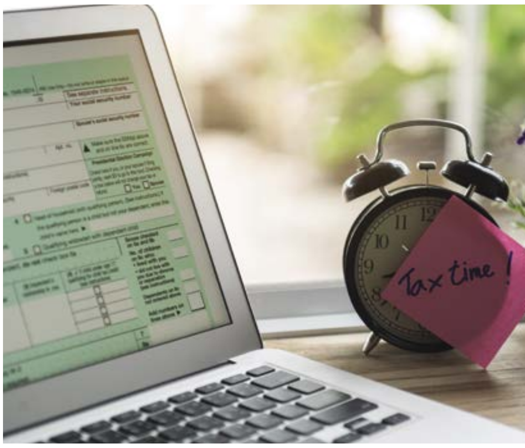
All households must display a current tax disc in the windscreen of their car as evidence that they have paid their motor tax.

Taxes Paid by Businesses

Businesses are liable for the following taxes:

1. Self-assessment Income Tax OR 2. Corporation Tax
3. Value Added Tax (VAT)
4. Commercial Rates
5. Customs Duties
6. Motor Tax
7. Employers' Pay Related Social Insurance (PRSI)

1. Self-assessment Income Tax



This is the income tax that **self-employed entrepreneurs** (sole traders and partners in a partnership) pay on their business profits. The tax payable is a percentage of the business's profits. Self-employed people have to work out the amount of self-assessment tax they owe. They are responsible for calculating their own tax bill. That is why it is called "self-assessment".

They must pay their income tax for the year by **31st October** of that year. They must also send in an annual tax return detailing all their income and tax credits for the year by 31st October of the following year. If they pay their taxes and submit their tax returns online, using ROS (Revenue Online Service), this 31st October deadline is extended to mid-November.

Self-assessment income tax is an example of a **direct tax**. Direct taxes are those taxes that are collected directly by the government from an individual or business that the tax is imposed upon.

To stop self-employed people evading* tax, they are subject to **revenue audits**, whereby Revenue tax inspectors call out to check their accounts and their tax returns to make sure that they paid the right amount of tax. If they find any fraud, the entrepreneur can be fined and/or imprisoned.

Tax evasion* is when taxpayers deliberately fail to pay the correct amount of tax they owe by not declaring the full amount of their income or by claiming tax deductions they are not entitled to. Tax evasion is illegal and the government impose very heavy penalties on those found guilty.

Tax avoidance is when taxpayers take advantage of rules contained in tax law to reduce the amount of tax they owe. For example, you can avoid the Sugar Sweetened Drinks Tax (SSDT) by buying sugar free drinks. This is perfectly legal.

2. Corporation Tax

This is the tax **companies** pay on their annual profits. The tax payable is a percentage of the company's profits. Ireland's rate of Corporation Tax is low. This helps us to attract foreign companies such as Google, Microsoft and Intel to set up branches here in Ireland, where they create jobs for people living in Ireland.

Companies themselves work out the amount of corporation tax they owe. They are responsible for calculating their own tax bill and for sending the tax into Revenue. They must also send in an annual tax return, detailing all their income and tax deductions. Therefore, corporation tax is a **direct tax**.

To stop companies cheating, they are subject to **revenue audits** whereby Revenue tax inspectors call out to check their accounts and their tax returns to make sure that they are correct. If they find any fraud, the company can be fined, and the directors can be fined and/or imprisoned.

3. Value Added Tax (VAT)

This is the tax businesses *must* add to the price of **goods and services** before they sell them to consumers. They collect this tax from the consumer when she pays for her products. The business must then pay the VAT collected to Revenue, usually every two months.

A shop wants to sell a pair of trainers for €100. It must add VAT (say at 23%) of €23 to the price. Therefore, the price displayed in the store is €123. When the shop takes the €123 from the customer, it has to pay the €23 VAT to Revenue.

Furthermore, when a business buys goods, it pays VAT to the **supplier**. For example, when a shop buys cash registers, display stands and stock and so on, it pays VAT to the business it bought them from.

Unlike consumers, however, businesses get a **refund** of the VAT they pay. Revenue gives business back any VAT they have paid on their business purchases.

4. Commercial Rates

This is a tax that a business must pay to its **local council** every year. For example, if you have a shop in Meath, you pay commercial rates to Meath County Council.

The amount paid is based on the **value** of the business's **property**. The value obviously depends on the location of the property, its size and the nature of the business carried out in it. For example, a department store in Grafton Street, Dublin would have to pay more commercial rates than the owner of a small electrical shop in an industrial estate on the outskirts of Enniscorthy, County Wexford.

The money raised from commercial rates is used to finance the local council's activities (such as roads, lighting and so on).

5. Customs Duties

When a business **imports** goods from a non-EU country, it must pay a tax on the value of those imports to Revenue. This import tax is called customs duties. The amount of tax payable is a percentage of the value of the goods. The percentage of tax can be over 100% and varies depending on what type of goods are being imported. Customs will not release the goods to the business until it pays the tax.

6. Motor Tax

Motor tax is a tax imposed on **motor vehicles**. Every business that has a vehicle must pay this tax to its local council every year.

The amount of motor tax payable is determined by the car's CO_2 emission levels. The more pollution created by the car, the greater the amount of tax payable.

All businesses must display a current tax disc in the windscreen of their vehicle as evidence that they have paid their motor tax.

7. **Employers' Pay Related Social Insurance (PRSI)**
   Employers' Pay Related Social Insurance is a tax a business pays to Revenue for every employee it has. The amount payable is equal to a certain percentage of the **employee's gross wages**. But this money is *not* taken from the employee's wages. The entrepreneur has to pay it out of his own profits. Therefore, Employers' Pay Related Social Insurance increases an entrepreneur's costs and hence reduces his profits.

   The tax is used to provide the employee with welfare benefits in the future.

Effects of Taxation on Business

1. **Lower Profits**
   Taxes taken from a business' profits (self-assessment tax or Corporation Tax) reduce the profits left for the business to spend on expanding the business. Therefore, taxes make it harder for businesses to grow.

2. **Lower Sales**
   Value added tax is added to the price of many of the products and services a business sells, making them more expensive. The higher price causes consumers to buy fewer products, resulting in lower sales for the business.

3. **Higher Costs**
   Businesses have to work out lots of taxes and pay them to Revenue. Because taxation can be complicated, many business people will hire an accountant to do this for them. The accountant's fees increase the business's costs. Also, Employer's PRSI is an added cost as it is money taken directly from the business.

4. **Less Overtime**
   High taxes (PAYE, PRSI and USC) taken from employees' wages act as a disincentive for employees to do overtime. Because the government takes over half their gross wages in tax, some employees feel it is not worth their while doing overtime. This can leave the business short of workers in busy times.

Household and Business Taxation

We have looked at taxation for businesses and households. There are a number of similarities and differences between them.

SIMILARITIES	DIFFERENCES
Both households and businesses must register with Revenue for tax purposes when they first start working/their business. They must both set up an online account with Revenue and register their job/business there.	Businesses get more tax deductions than households. For example, businesses can claim a tax deduction for the cost of buying fixed assets such as cars or furniture. This reduces the tax they owe. Households get no tax deduction whatsoever for the cost of buying fixed assets.
Both must calculate the amount of tax they owe and pay the correct amount to Revenue on time. For example, households must work out their Capital Acquisitions Tax and Capital Gains Tax bills themselves. Businesses must work out almost all their taxes themselves. If they do not, both businesses and households will have to pay interest and penalties to Revenue, in addition to the tax owing.	A business gets a refund from Revenue of the value added tax it paid on its business purchases. A household does not get a refund of the value added tax it paid.
Both a business and a household will engage in tax avoidance to minimise the amount of tax they have to pay. For example, an employee may put more money into his pension scheme to claim the maximum tax deduction possible for pension contributions. A business person may set up a company because the rate of corporation tax on business profits is lower than the rate of self-assessment income tax.	Businesses collect taxes from others (such as PAYE, PRSI and USC from their employees' wages and VAT from customers) on behalf of Revenue. Households do not collect taxes from others.
Both must keep proper tax records. If they are claiming tax credits or deductions, they must have proof that they are eligible for them.	

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **three** principles of insurance.
2. Senan has his factory insured for €250,000. It is currently worth €500,000.
   Yesterday there was a fire in the factory, causing damage of €6,000.
   Senan puts in a claim for €6,000.
   How much compensation will Senan receive? Show your workings.
3. Paula has her house insured for €120,000. It is currently worth €200,000.
   Yesterday there was a storm which resulted in damage of €4,000 to her roof.
   How much compensation will Paula receive? Show your workings.
4. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Utmost good faith
2. Average clause
3. Claim form
4. Contribution
5. Loading
6. Indemnity

Column 2: Explanations
(a) Filled in when seeking compensation following a loss
(b) Applies when a person insures the same asset with more than one insurance company
(c) Filled in when applying for insurance cover
(d) You cannot make a profit from insurance
(e) When applying for insurance, you must disclose all material information to the insurance company
(f) Extra charge added to an insurance premium because the person is a higher than average risk
(g) The insurance company only pays out a fraction of the compensation because the business or household is only insured for a fraction of the item's value

1	2	3	4	5	6

5. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	The more valuable the item you wish to insure, the lower your insurance premium will be.	
B	The greater the risk you are, the more your insurance premium will be.	
C	The more claims that an insurance company has to pay, the more each person's premium will be.	
D	All households must take out health insurance by law.	
E	A loading is a reduction on the basic premium because the person is a lower risk of claiming.	

6. Outline **two** types of insurances that you would advise a business person to have.
7. Outline **two** types of insurances that you would advise a household to have.
8. Write out what the following letters stand for: VAT DIRT PAYE
9. Write out what the following letters stand for: PRSI CGT CAT

10. Jamie's annual salary is €68,000. PAYE tax is paid as follows:
First €30,000 @ 24%; Balance @ 46%. Compute Jamie's take-home pay for the year.
11. List **four** taxes paid by businesses in Ireland.
12. List **four** taxes paid by households in Ireland.
13. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. DIRT
2. Corporation tax
3. PAYE
4. Commercial rates
5. Customs duties
6. Self-assessment income tax

Column 2: Explanations
(a) Tax deducted from an employee's wages
(b) Tax paid on gifts and inheritances received
(c) Tax paid on a company's profits
(d) Tax paid by sole traders on their business profits
(e) Tax deducted from interest earned on savings
(f) Tax paid by businesses to their local council
(g) Tax paid on goods imported into Ireland from outside the European Union

1	2	3	4	5	6

EXAM SECTION 2 – LONG QUESTIONS

1. State and explain **three** principles of insurance. **(20 marks)**
2. Describe **three** types of insurance you would expect a restaurant to have. **(15 marks)**
3. Describe **two** factors that affect the premium a person has to pay for car insurance.
Give an example of each. **(15 marks)**
4. Distinguish between "insurable interest" and "indemnity". **(20 marks)**
5. Mark insured his van with two insurance companies as follows:

	Company E	Company F
Value insured with each	€14,000	€6,000

Vandals caused €3,000 of damage to the van.
Calculate the compensation to be paid to Mark.
Name the principle of insurance that applies in this case. **(15 marks)**

6. Kelsey insured her house with two insurance companies as follows:

	Company G	Company H
Value insured with each	€400,000	€500,000

A fire in the kitchen caused damage of €18,000.
Calculate the compensation to be paid to Kelsey.
Name the principle of insurance that applies in this case. **(15 marks)**

7. Outline **three** types of insurance that you would expect a household to have. **(15 marks)**
8. Describe **three** taxes that you would expect a supermarket to pay. **(15 marks)**
9. Saoirse works for Meskell Ltd as a welder. She puts €50 every week into her bank deposit account and spends the rest of her wages on clothes and her car.
Outline **four** taxes that you would expect Saoirse to pay. **(20 marks)**
10. Distinguish between "commercial rates" and "corporation tax". **(10 marks)**
11. Outline **three** effects of taxation on a business. **(15 marks)**
12. Outline **two** similarities and **two** differences in managing business taxation and managing household taxation. **(20 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between the insurance principles of "contribution" and "subrogation".
2. In the context of insurance, illustrate your understanding of the term "loading".
3. Chloe insured her factory with four insurance companies as follows:

	Insurance Company A	Insurance Company B	Insurance Company C	Insurance Company D
Amount she insured it for	€400,000	€200,000	€300,000	€100,000

A storm caused damage of €16,000.
How much compensation will Chloe receive from each company?

4. Michael has his office building insured for €400,000. It is currently worth €1,000,000.
Yesterday there was a fire in the office, causing damage of €20,000.
How much compensation will Michael receive? Explain your answer.
5. Explain the insurance term "premium".
6. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Material information
2. Endowment policy
3. PRSI
4. Loading
5. Average clause

Column 2: Explanations
(a) All questions on a proposal form must be answered honestly
(b) Addition to basic premium for increased risk
(c) Pays compensation on the earlier of death or reaching a certain age
(d) Insurance company pays a fraction of compensation because you are only insured for a fraction of asset's value
(e) Details that would affect an insurance company's decision to insure a person
(f) Compulsory insurance payable to government to provide employee with future government benefits such as pension

1	2	3	4	5

8. Distinguish between a "regressive tax" and a "progressive tax".
9. Illustrate your understanding of the term "tax credit".
10. What do the following letters stand for? PAYE PRSI VAT DIRT CGT
11. Distinguish between a "direct tax" and an "indirect tax".
Give an example of each tax to illustrate your answer.
12. List **four** contrasting activities in managing business taxation and managing household taxation.
13. Distinguish between "gross pay" and "net pay".

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Restoranas

Daiva Vitkus had long thought about setting up her own business. She had worked successfully as a chef in an up-market Athlone restaurant for many years. She made the decision to set up her business, a Lithuanian restaurant that she called "Restoranas", in nearby Moate, as a sole trader and she has made profits every year since.

Daiva found it very expensive to set up the restaurant. She had to buy kitchen equipment, tables and chairs. Recently she bought a van to deliver take-away food around the town. The restaurant has done well thanks to Daiva's ambition, hard work and fresh ideas and Daiva now employs two other chefs and five waiting staff.

Daiva's restaurant is busy most nights but especially at weekends when customers who don't book in advance find it almost impossible to get a table. Customers from all over the midlands come to the restaurant as Daiva uses only the freshest ingredients, including fish caught in the local River Shannon. The restaurant got an excellent review in the newspaper from the food critic who especially praised Daiva's wine list which included Chilean, Australian and South African wines.

Describe four taxes that you would expect Daiva to pay.
Give reasons for your answer and support your answer with reference to the above text. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Explain any **four** principles of insurance. **(20 marks)**
2. Sarah insured her house with two insurance companies as follows:

	C	D
Value insured with each	€250,000	€300,000

   A storm caused damage of €10,000. The house is worth €750,000.
   How much compensation will Sarah receive from each company?
   Explain your answer. **(20 marks)**
3. Describe the various insurances that you would expect a household to have. **(20 marks)**
4. Explain the purpose of the principle of contribution. **(10 marks)**
5. Evaluate the importance of insurance to a business. **(15 marks)**
6. Discuss the factors that determine the premiums charged by insurance companies. **(20 marks)**
7. Corinne's annual salary is €105,000. PAYE tax is paid as follows:
   First €45,000 @ 24%
   Balance @ 42% (This means that the first €45,000 is taxed at the 24% standard tax rate, and the remainder is taxed at the higher tax rate of 42%.)
   Corinne pays Employee PRSI at the rate of 4% on her gross income.
   Universal Social Charge is 2% on the first €10,000, 4% on the next €5,000 and 7% on the balance.
   Corinne's tax credits for the year comprise the following:
   Single Person €2,000; Employee €1,550.
   Compute Corinne's take-home pay for the year. **(20 marks)**
8. Yvonne and Paul are married. Their combined annual salary is €150,000.
   PAYE tax is paid as follows: First €80,000 @ 20%; Balance @ 40%
   The couple pays Employee PRSI at the rate of 4% of gross income.
   Universal Social Charge is 2% on the first €10,000, 4% on the next €10,000 and 7% on the balance.
   Their tax credits for the year are as follows: Married person's credit of €5,000, Employee credit of €2,000, Child credit of €3,000 and Age credit of €2,000.
   Compute their net pay for the year. **(20 marks)**

9. Jia Li inherited €2,000,000 from her late aunt.
Having sought advice from a friend, she decided to save €400,000 in a bank deposit account and invest €1,500,000 in shares in the Irish stock exchange.
She spent the rest on a new car and on new clothes.
At the end of the year, she sold her shares and made a large profit.
Describe the taxes that Jia Li is liable for. Give reasons for your choice. **(20 marks)**

10. Distinguish between a proposal form and a claim form in insurance. **(10 marks)**

11. Compare and contrast business and household taxation. **(20 marks)**

12. Using examples, discuss the negative impact of taxation on Irish businesses. **(20 marks)**

NOTES

UNIT 4

CHAPTER 13 FINANCE

LEARNING OUTCOMES

In this chapter, we will look at:

- How business and households keep track of the money they receive and spend, so that they never run out of cash.
- The different ways that businesses and households can borrow money.
- How banks decide whether someone gets a loan or not.
- How to pick the best loan.
- A type of bank account called a current account.
- The differences between running a business and running a household.

This chapter examines the important issue of money. A business and a household must manage their money properly. If a business does not have the cash ready to pay its bills, its creditors may take it to court and have it liquidated (closed down and sold off). Similarly, if a family does not have the cash available to pay its mortgage, their house may be repossessed.

To prevent this, businesses need to prepare a **cash flow forecast** and households a **household budget**.

Business Cash Flow Forecast

A cash flow forecast is a **written plan** in which a business sets out its expected future cash receipts and payments over a period. This helps it to estimate whether it will have a cash surplus (cash left over) or deficit (not enough cash) in the future. The business can then plan out the best course of action to deal with this predicted cash surplus or deficit. It is laid out as follows:

Cash flow forecast for Sample Ltd for next summer					
		Next June €	Next July €	Next August €	Totals for ALL three months next summer €
A	Receipts	55,000	80,000	90,000	225,000
B	Payments	58,000	60,000	80,000	198,000
C	Net Cash (A–B)	(3,000)	20,000	10,000	27,000
D	Opening Cash (cash left over from previous month)	1,000*	(2,000)	18,000	1,000*
(C+D)	Closing Cash (cash left over at the end of this month)	(2,000)	18,000	28,000	28,000

* The "opening cash" is the money that you start each period with. The money that Sample Ltd started the *total* period of June, July and August with, was €1,000 at the start of June.

There are many different ways that a business can receive and spend cash, as follows:

CASH RECEIPTS FOR A BUSINESS	CASH PAYMENTS FOR A BUSINESS
■ Cash received from selling goods to customers	■ Cash paid to buy stock for the business
■ Cash received from customers the business sold to on credit (called debtors) when they pay their bills	■ Cash paid to suppliers (called creditors) for stock the business bought from them on credit
■ Cash received from income earned on investments such as interest on a bank deposit account	■ Cash paid to buy fixed assets, such as cars, buildings, equipment, machinery, computers, vans and so on
■ Rent received from tenants	■ Cash paid out in dividends to shareholders
	■ Cash paid out to pay expenses such as wages, insurance, electricity, phone and so on
	■ Cash paid to Revenue for taxes owing, such as VAT, PAYE, PRSI and so on

Dealing with an Expected Future Deficit

If the cash flow forecast shows that a cash deficit is predicted in the future, the business can take steps *now* to prevent this by devising strategies to increase cash receipts or reduce cash payments over the period.

Increase Cash Receipts

1. The business can use **credit control** methods (*see Chapter 8*) such as offering a discount for prompt payment to get more debtors (customers who owe the business money for goods sold to them on credit) to pay their bills quickly and thus generate more cash for the business.
2. The business can **sell** some of its investments (shares in other companies, investment properties and so on) to raise cash.
3. The business can have a **sale** and drop its prices to encourage customers to spend more, thus increasing the amount of cash coming in.

Reduce Cash Payments

1. Instead of paying a large amount of cash out in one go to pay for expensive fixed assets (such as a new van), the business can **spread** the payments out over a longer period by using hire purchase. This means getting the asset now, but paying for it in regular instalments over a number of years (up to five). Although this will be more expensive in the long run, it avoids having a large amount of cash leave the business all at once.
2. The business can reduce cash payments for expenses by making **cutbacks**. To lower the amount of cash leaving the business, voluntary wage cuts can be introduced. The business should shop around for cheaper service providers, such as phone and electricity suppliers.
3. To reduce the amount of cash paid out to shareholders as dividends, the business could offer them **free shares** in the business instead.

Example

The accountant in Prospect Knitters, a firm that makes jumpers, hats and scarves, has just prepared the following cash flow forecast for *next* summer as follows:

Cash flow forecast of Prospect Knitters for next summer				
Receipts	**June €**	**July €**	**August €**	**Total €**
Cash Sales	10,000	9,000	7,500	26,500
Receipts from Debtors	2,000	1,000	1,000	4,000
Total Receipts	**12,000**	**10,000**	**8,500**	**30,500**
Payments				
Cash Purchases	3,000	1,000	1,000	5,000
Payments to Creditors	1,000	2,000	500	3,500
Wages	6,000	6,000	6,500	18,500
Van	15,000	-	-	15,000
Total Payments	**25,000**	**9,000**	**8,000**	**42,000**
Net Cash	(13,000)	1,000	500	(11,500)
Opening Cash	5,000	(8,000)	(7,000)	5,000
Closing Cash	(8,000)	(7,000)	(6,500)	(6,500)

Based on the information provided above, outline how Prospect Knitters could improve the cash flow position of its business.

Note: *Look* closely at the figures in the cash flow forecast to see the causes of the cash flow problem – what is happening to sales receipts? Is the business purchasing an expensive fixed asset?

Answer

Prospect Knitters' sales receipts are predicted to fall every month from June onwards. To improve its cash flow position, the business can increase its receipts by having a summer sale. It should sell of a number of items at a reduced price. This will encourage more customers to buy more jumpers, hats and scarves and cash receipts will therefore increase.

Prospect Knitters is planning to buy a van for €15,000 cash in June. This massive cash outflow is responsible for the closing deficit each month. To avoid this, the business should spread out the payments for the van using hire purchase. This involves getting the van now but paying for it in regular instalments over a number of years. Therefore, Prospect Knitters will only have to pay out a small amount of cash each month, thus avoiding these predicted deficits.

Why Does a Business Prepare a Cash Flow Forecast?

1. **To Avoid Cash Deficits**
   It lets the business know in advance when it is going to run short of money (deficit). Therefore, it gives the business plenty of time to increase cash receipts or reduce cash payments or arrange a bank overdraft to deal with this deficit. Thus, it ensures that the business can pay all its bills on time and does not go bankrupt.

2. **To Raise Finance**
   A cash flow forecast can be used to show investors that the business carefully plans out its cash payments and receipts to ensure that it never runs out of cash and thus avoids bankruptcy. This will convince investors that the business is properly managed and is a sound investment. This will encourage them to provide the business with the money it needs to expand into the future.

3. **To Improve Financial Control**
   The business can compare its actual receipts and payments when they happen against those that it originally planned in the cash flow forecast. This lets the business know whether it is on target or off target to achieve its projected net and closing cash figures. If the manager sees that the business is off target, she can immediately take corrective action to improve cash flow. Thus, it helps the business to improve its financial control.

4. **To Increase Profits**
   It lets the business know in advance when it is going to have excess cash left over (surplus). The business can then make plans to invest this cash. The business can earn extra interest by not leaving an unexpected cash surplus lying around.

Household Budgeting

Just like businesses, households have to keep an eye on their finances to make sure that they can pay their bills. Many families prepare a household budget.

A household budget is a written plan in which a family sets out its expected future cash receipts and payments over a period. This helps it to estimate whether it will have a cash surplus or deficit in the future. The household can then plan out the best course of action to deal with this predicted cash surplus or deficit.

Household expenditure can fall into one of three categories:

- **Fixed** –bills that must be paid every month and the amount stays the same.
- **Irregular** – bills that must be paid but the amount changes from month to month.
- **Discretionary** – money that the family does not have to spend. It is optional.

Here is an example of a household budget that the Cregan household has prepared for next summer:

Household budget for the Cregan household				
	Next July €	Next August €	Next September €	Total for all three months €
INCOME				
Net Wages	4,000	4,000	4,000	12,000
Child Benefit	400	400	400	1,200
(A) Total Income	4,400	4,400	4,400	13,200
EXPENDITURE				
Fixed				
Mortgage	1,200	1,200	1,200	3,600
Insurance	100	100	100	300
Irregular				
Groceries	800	1,000	1,200	3,000
Car Running Costs	400	600	500	1,500
Light and Heat	100	200	200	500
Discretionary				
Holiday			3,400	3,400
Entertainment	300	500	400	1,200
Birthday Presents	100	400	0	500
(B) Total Expenditure	**3,000**	**4,000**	**7,000**	**14,000**
(C) Net Cash (A) - (B)	1,400	400	(2,600)	(800)
(D) Opening Cash	100	1,500	1,900	100
Closing Cash (C) + (D)	1,500	1,900	(700)	(700)

There are many different ways that a household can receive and spend cash, for example as follows:

CASH RECEIPTS FOR A HOUSEHOLD	CASH PAYMENTS FOR A HOUSEHOLD
Cash received from wages if they have a job or Jobseeker's Benefit if they do not	Cash paid for household expenses such as groceries, mortgage or rent, insurance, school expenses, etc.
Cash received from Child Benefit if the family has children	Cash paid to buy fixed assets such as cars, televisions, fridges, etc.
Interest received from the credit union or bank on the family's savings	Cash paid to local authority for local property tax, motor tax, etc.

Dealing with an Expected Future Deficit

If the household budget shows that a cash deficit is predicted in the future, the family can take steps now to prevent this by devising strategies to increase cash receipts or reduce cash payments over the period.

Increase Receipts

1. The family members can do overtime at work or take on an extra part-time job to increase the amount of **wages** coming into the household.
2. The household can rent a spare room in the house to a **lodger**. The extra cash received in this way is tax-free.

Reduce Payments

1. Instead of paying a large amount of cash out in one go to pay for expensive fixed assets (such as a TV), the household can **spread** the payments out over a longer time by using hire purchase. This will be more expensive in the long run, but it avoids having a large amount of cash leave the household all at once.
2. The household can reduce payments for expenses by making **cutbacks**. To reduce grocery payments, the family can buy non-branded products from discount supermarkets. They can also cut back on bills by switching to cheaper providers for things like gas, electricity, internet, etc.

Why Does a Household Prepare a Budget?

1. To Avoid Cash Deficits

It lets the family know in advance when it is going to run short of money (deficit). Therefore, it gives the family plenty of time to increase income or reduce expenditure or arrange a bank overdraft to deal with this deficit. Thus, it ensures that the family can pay all its bills on time.

2. To Manage its Money Better

Drawing up a household budget shows the family exactly where they are planning to spend their money. It highlights particular areas of overspending that can be cut back on.

3. **To Raise Finance**
A household budget can be used to show a bank manager that the family carefully plans out its income and expenditure to ensure that it never runs out of cash and thus can always pay its bills on time. This will convince the bank manager that the family are a good risk, and she will give them the loans they ask for.

4. **To Help Maximise Investments**
It helps the household see when it is going to have a predicted cash surplus. This allows it to act now to invest this surplus, such as putting more money into a savings account to earn interest.

Spreadsheets

Many businesses and households use a spreadsheet to draft their cash flow forecasts.

A spreadsheet is a computer **application** that is used to do basic maths calculations.

The spreadsheet itself consists of cells (boxes). Numbers and words can be entered into each cell. The spreadsheet can do maths calculations when the user types in a maths formula. Once a formula is typed in, it can be copied into other cells. When you change the numbers, the formula automatically recalculates the new answer for you.

	B3-B4			
	A	B	C	D
1		July	August	September
2		€	€	€
3	Receipts	10,000	12,000	18,000
4	Payments	6,000	14,000	19,000
5	Net Cash	4,000	(2,000)	(1,000)

Advantages of a Spreadsheet

- It performs basic mathematical calculations **accurately and quickly**. This enables a business and a household to prepare its accounts and cash flow forecasts quickly, saving time and money.
- It allows for "**what if**" analysis, i.e., what will the answer be if the numbers change? Once the business/household has prepared its accounts or cash flow forecast on the spreadsheet, it can then change any of the numbers and the spreadsheet will instantly recalculate all the new answers. Thus, it allows a business or household to immediately see the impact on its predicted surplus/deficit if certain changes are made to predicted receipts/payments. This will let the business or household know how vulnerable it is to changes in the original forecast. (For example, what will net cash be if receipts in August increase to €14,000? What will the net cash be if payments increase each month by 20%?)

Sources of Finance

Most businesses and households do not have enough cash on hand to pay for all the things they need. For example, very few families have the cash to buy a €350,000 house, a €25,000 car, or even a €2,000 fridge. But they can buy these things if they borrow.

The different ways for a household and business to raise the money it needs are called sources of finance. There are three types – short term, medium term and long term.

	HOUSEHOLD	BUSINESS
Short term	■ Bank overdraft ■ Accrued expenses ■ Credit card	■ Bank overdraft ■ Accrued expenses ■ Credit card ■ Trade credit ■ Factoring
Medium term	■ Hire purchase ■ Leasing ■ Personal loan	■ Hire purchase ■ Leasing ■ Medium-term loan
Long term	■ Mortgage ■ Savings	■ Retained earnings ■ Grants ■ Debentures ■ Equity capital

Short-term Sources of Finance

A short-term source of finance consists of borrowings that must be repaid within one year. It is used to acquire items that will be used up in less than a year such as stock for a business or groceries for a household.

Bank Overdraft [Household and Business]

A bank overdraft is a facility whereby a bank allows the business/household to pay for items, up to an agreed limit, using a debit card, even though it has insufficient funds in its account to cover the amount. The bank pays the amount for the business/household. The business/household pays the bank back later, with interest.

Advantages

- Interest is paid only on the amount that the business/household is actually overdrawn, not on the full overdraft limit.
- No security is needed to get an overdraft. The business/household does not have to give the bank the deeds to its valuable assets to secure the overdraft. This means that the household's house and the business's premises are not at risk if they cannot pay the overdraft back.
- For a *business only*, the interest that a business pays on its overdraft is tax deductible, which helps to lower its tax bill.

Disadvantages

- The rate of interest on an overdraft is expensive.
- The household/business must be overdraft free for at least 30 days in the year.
- The bank can ask the household/business to pay back the overdraft immediately.
- The bank imposes extra charges if the household/business goes over its overdraft limit.

Accrued Expenses [Household and Business]

A **utility provider** allows the business/household to use its services (broadband, electricity, phone, gas, water) now without immediate payment. After a while (at the end of the month, for example) the provider sends the business/household a bill showing what it owes for the services it used that month and setting out a deadline for payment. The business/household pays the provider on the agreed date.

Advantages

- No interest is charged so it is a free form of finance.
- No security is needed to use accrued expenses. The business/household does not have to give the supplier the deeds to its valuable assets to secure the finance. This means that the household's house and the business's premises are not at risk if they cannot pay the service provider back.

Disadvantages

- If the household/business takes too long to pay its bill, it will be cut off. This will mean no service for a time and the household/business may have to pay a reconnection fee.
- Accrued expenses are only suitable to finance for certain purchases such as utility services.

Credit Card [Household and Business]

A household/business can pay for the goods and services it wants with a credit card. Well-known credit cards include **Visa** and **Mastercard**. When someone makes a purchase with a credit card, the shop scans the credit card and the credit card company pays the amount to the shop. The credit card company sends the household/business a bill at the end of the month showing all the purchases it paid for them and a deadline (usually within a month) by which the total must be paid.

Advantages

- No interest is charged if the household/business pays its bill in full and on time.
- It is safer than carrying cash around because a stolen credit card can be cancelled and therefore the household/business will not lose any money.

Disadvantages

- If the household/business does not pay its credit card bill in full or on time, it must pay interest at a very high rate.
- The household/business must pay a government tax for every credit card it has.

Trade Credit [Business Only]

A supplier allows the business to buy stock from it now without having to pay for it now. After a while (e.g. at the end of the month) the supplier sends the business a **bill** showing how much it owes for the stock it bought that month and setting out a deadline for payment. The business pays the supplier on the agreed date.

Orla is a newsagent. On 1 December, she buys 300 magazines on credit from Magazine Importers Ltd.

Magazine Importers Ltd sends her an invoice telling her that the bill for the magazines is €600 and must be paid by 30 December.

Orla sells all the magazines to her customers within the month and, therefore, has the money to pay Magazine Importers Ltd in full and on time.

Advantages

- It can be a free source of finance for the business. No interest is charged if the business pays its bill on time.
- However, if interest is charged, it is tax deductible, which helps to lower the business's tax bill.
- No security is needed to use trade credit. The business does not have to give the supplier the deeds to its valuable assets to secure the finance. This means that the business's premises are not at risk if it cannot pay the supplier back.
- The entrepreneur's ownership over her business is not affected. The business does not have to give the supplier any of its shares to avail of trade credit.

Disadvantages

- If a business deliberately keeps its suppliers waiting for their money all the time, this is called leaning on the trade and will result in the business losing its credit rating (**reputation**). The business will find it very hard to get credit in the future. Suppliers may be willing to sell to it on a cash only basis.
- If the business pays its bill late, it loses out on any cash discounts that the supplier offers for early payment.

Factoring [Business Only]

The business raises money by selling its debtors to a bank for cash. Rather than waiting for the debtors to pay, the business gets money up front right now from the bank.

There are two types. **Factoring with recourse** means that the business must reimburse the bank if any debtors it sold do not pay the bank. **Factoring without recourse** means the business does not have to reimburse the bank if debtors do not pay the bank.

The bank usually pays about 80% of the value of the debtors immediately and the balance at the end of the normal collection period (30 days, for example).

Advantages

- No security is needed to use factoring. The business does not have to give the bank the deeds to its valuable assets to secure the finance. This means that the business's premises are not at risk if they cannot pay the bank back.
- The entrepreneur's ownership over her business is not affected. The business does not have to give the bank any of its shares to avail of factoring.

Disadvantages

- It is an expensive form of finance as the bank charges a high fee for the service.
- Factoring can only be used by businesses that sell a lot of goods on credit (have lots of debtors).

Medium-term Sources of Finance

A medium-term source of finance consists of borrowings that must be repaid within one to five years. It is used to acquire items that will be used up within one to five years, such as cars, furniture and TVs for a household, and equipment, vans and machinery for a business.

Hire Purchase (HP) [Household and Business]

Hire purchase involves buying an asset and taking delivery of it now but paying for it in **instalments**. When the household/business pays the last instalment, it then legally owns the asset.

Once the household/business has paid one-third or more of the hire purchase price, the hire purchase company can only repossess the item with the permission of a judge.

A household/business can end a hire purchase agreement provided that it has paid the hire purchase company one-half of the hire purchase price.

Advantages

- No security is needed to use hire purchase. This is because the asset itself is the security. The business/household does not have to give the hire purchase company the deeds to its valuable assets to secure the finance. This means that the household's house and the business's premises are not at risk if they cannot pay the hire purchase company back.
- For a *business only*, the hire purchase interest that a business pays is tax deductible, which helps to lower its tax bill.
- For a *business only*, the entrepreneur's ownership over her business is not affected. The business does not have to give the hire purchase company any of its shares to avail of hire purchase.

Disadvantages

- The rate of interest charged is normally quite high, which can make hire purchase an expensive source of medium-term finance.
- If the household/business cannot pay back the instalments, the asset will be repossessed by the hire purchase company.

Leasing [Household and Business]

The business/household **rents** the asset over a period of up to five years from a finance company. It pays a monthly lease payment for use of the asset. It never owns the asset. At the end of the lease period, it hands back the asset to the finance company.

Advantages

- No security is needed to use leasing. The business/household does not have to give the leasing company the deeds to its valuable assets to secure the finance. This means that the household's house and the business's premises are not at risk if they cannot pay the leasing company back.

- The household/business can always have up-to-date equipment. It simply hands the asset back at end of lease agreement and can then sign a new lease agreement for a brand new one if it so wishes.
- For a *business only*, the lease payments that a business makes are tax deductible, which help to lower its tax bill.
- In business, leasing assets removes a lot of hassle, so that managers are free to focus on their core business. The leasing company handles the buying, selling and maintaining of the asset.

Disadvantages

- If the household/business fails to make its regular lease payments, the asset will be taken back by the finance company.
- If the household/business rents for a long time, it may have spent so much money renting the item that it would have been cheaper to buy it.

Personal Loan [Household Only]

The household borrows money from a bank or credit union and pays it back in regular instalments over five years. The instalments pay back the loan itself (the capital) and the interest.

The household can get a **fixed rate** personal loan. This means that the interest rate on the loan does not change and so the loan repayments stay the same every month.

Alternatively, the household can get a **variable rate** personal loan. This means that the monthly repayments go up and down as the European Central Bank increases and decreases interest rates.

Advantages

- The rate of interest charged is usually cheaper than that on hire purchase. Therefore, a personal loan might save the family a lot of money on interest over the life of the loan.
- No security is needed to get a personal loan. The household does not have to give the bank or credit union the deeds to its valuable assets to secure the finance. This means that the family home is not at risk if the family cannot pay the bank or credit union back.

Disadvantage

- The household pays interest on the initial sum borrowed. There is no reduction for instalments repaid.

Medium-term Loan [Business Only]

The business borrows money from a bank and pays it back in regular instalments over five years. The instalments pay back the loan and interest.

The business can get a **fixed rate** medium-term loan. This means that the interest rate on the loan does not change and so the loan repayments stay the same every month. Alternatively, the business can get a **variable rate** medium-term loan. This means that the monthly repayments go up and down as the European Central Bank increases and decreases interest rates.

Advantages

- The rate of interest charged is usually cheaper than that on hire purchase. Therefore, a medium-term loan might save the business a lot of money on interest over the life of the loan.
- The interest that a business pays on its medium-term loan is tax deductible, which helps to lower its tax bill.

- The entrepreneur's ownership over his business is not affected. The business does not have to give the bank any of its shares to avail of a medium-term loan.

Disadvantages

- Security is normally required to get a medium-term loan. The business has to give the bank the deeds to its valuable assets to secure the finance. Therefore, the bank will take some of the business's assets if the business cannot repay the loan.
- If the European Central Bank increases interest rates and the business's loan is variable, monthly repayments will increase.

Long-term Sources of Finance

A long-term source of finance consists of borrowings that take longer than five years to pay back. It is used to acquire items that will be used for longer than five years, such as a house for a household or premises or business expansion for a business.

Mortgage [Household Only]

A mortgage is a long-term (usually 20 to 35 years) loan used by a household to buy their **home**. The loan is **secured** on the house. This means that if the family cannot repay the mortgage, the bank will repossess their home.

The household makes monthly repayments to pay back the mortgage. The household can get a fixed or variable rate mortgage. Mortgages are used to buy a house or to do major home improvements such as extensions.

Advantage

- The interest rate on a mortgage loan is usually the cheapest rate available on a loan.

Disadvantage

- If the family cannot afford their monthly repayments, they will lose their home.

Savings [Household Only]

Savings are the amount of income the family has not spent but has **set aside** to use in the future.

Advantages

- Because the household has not borrowed, there is no interest to repay.
- Because the household has not borrowed, no security is needed so there is no risk of losing their home.

Disadvantage

- It may take the household many years to build up its savings so that they are large enough to buy something.

Retained Earnings [Business Only]

Retained earnings (also called reserves) are the **profits** that the business has saved up over the years, which it reinvests in the business and uses to finance the business into the future.

When Ryanair tried to buy Aer Lingus in 2017, it did not have to borrow the money to pay for the takeover. It intended to use its retained earnings of over €2 billion to do so.

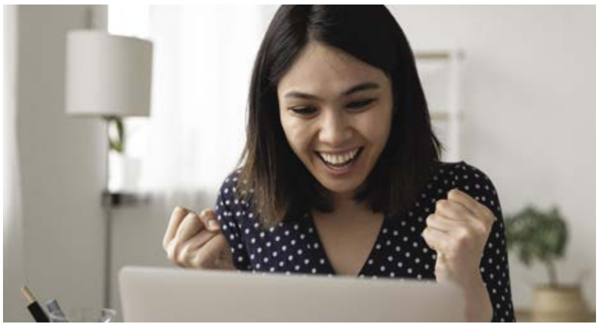
Advantages

- Because the business has not borrowed, there is no interest to repay. Therefore, retained earnings can save the business a lot of money every year.
- No security is needed. This means that the business's premises are not at risk at all.
- The entrepreneur's ownership over her business is not affected. The business does not have to give away any of its shares when it uses its retained earnings.

Disadvantages

- Retained earnings are not available to new businesses and it may take many years to build up decent retained earnings.
- Businesses that save a lot of their profits and pay low dividends may have a bad relationship with shareholders.

Grants [Business Only]



A grant is a sum of money that the government or another organisation, for example a foundation, gives a business to help it pay for the things it needs, such as buildings.

A grant is a **permanent** source of finance because it does not have to be repaid to the government, provided that the business obeys all the conditions of the grant.

Advantages

- Because the business has not borrowed, there is no interest to repay. Therefore, grants can save the business a lot of money every year. Furthermore, the grants itself does not have to be repaid.
- No security is needed. This means that the business's premises are not at risk at all.
- The entrepreneur's ownership over her business is not affected. The business does not have to give the government any of its shares to get the grant.

Disadvantages

- The business will only get a grant subject to strict conditions. If the business breaks these, it will have to pay the money back to the government.
- The government/grant provider usually gives the business only a percentage of the money it needs. Therefore, it still faces the problem of raising the long-term finance to pay for the remainder of the asset.

Debentures [Business Only]

A debenture is a long-term loan used by a company. The loan is secured on the company's assets. If the company cannot repay the debenture, the bank will repossess its buildings or other valuable assets.

The company pays the interest on the loan every year but pays back the loan itself in one lump sum in the future. The rate of interest is fixed, which means that the company pays the same rate of interest every year.

Advantages

- The interest that a business pays on its debenture loan is tax deductible, which helps to lower its tax bill.
- The entrepreneur's ownership over her business is not affected. The business does not have to give the lender any of its shares to avail of a debenture loan.

Disadvantages

- Security is required, so the bank will take the company's buildings if the company cannot repay the loan.
- Debentures increase the company's debt/equity ratio (*see Chapter 11*). This increases the company's annual interest payments and its chances of going bankrupt and makes it harder for it to get any more loans.

Equity Capital [Business Only]

The entrepreneur obtains the finance he needs by selling part of his business (he sells "**shares**" in the business) to investors for money. These new investors, called shareholders, then own part of the business and are entitled to vote at company meetings. For every share they buy, they get one vote.

Because they own part of the business, the investors "own" part of the profits every year. This is called a dividend. The directors of the business decide how much the dividend will be (if any).

Advantages

- Because the business has not borrowed, there is no interest to repay and dividends need only be paid at the directors' discretion. Therefore, using equity finance can save the business a lot of money every year.
- No security is needed when selling shares in the business. The business does not have to give the investors the deeds to its valuable assets to secure the capital. This means that the business is not in danger of losing its premises if it uses equity capital.
- The equity capital raised from investors is a permanent source of finance. It does not have to be repaid until the business closes down.

Disadvantages

- The entrepreneur must give some of his shares in the business to the new investors. This reduces his percentage ownership and his control over his business and reduces the amount of dividends (share of the profits) he will receive into the future.
- Any dividends the business pays to its shareholders are not tax-deductible. Therefore, selling shares does not help the business to reduce its tax bill.
- Organising the sale of shares can be very expensive. The business must pay for brochures about the business (called prospectuses) to be printed, advertisements announcing the sale, stockbrokers to handle the sale and lawyers to draw up all the contracts and other legal documents.

Qualifying for a Loan

When a business or a household applies for a loan, the lender (the bank, for example) will judge them on the following criteria:

Character

The lender will want to establish if the business/household is **honest** and **reputable**. To do this, a bank will ask a household questions such as how long they have lived at their present address and how long they have been in their current jobs, and it will ask a business how long it has been established and for details of who its directors and managers are.

Capacity

The lender will want to establish if the business/household makes sufficient **income** to be able to repay the loan and the interest.

The bank will ask the household for a statement of earnings from its "myAccount" on revenue.ie to determine its gross and net earnings. It will ask a business for an audited copy of its profit and loss account to see whether its profits are sufficient to repay the loan and the interest.

Collateral

The lender will want to establish if the business/household has any valuable **assets** that it can offer as security for the loan. If it cannot pay back the loan, the bank will take the asset instead.

The bank will ask a household for details regarding the house they live in and any other properties they may own and it will ask a business for its balance sheet, so that it can examine the business's fixed assets to see whether it has good security for the loan.

Credit Rating

The lender will want to establish if the business/household has a good **history** of taking out loans in the past and repaying them in full and on time.

The bank's credit control department will run a **credit check** on the customer through the Central Credit Register (CCR). The CCR is a national database, run by the Central Bank of Ireland, that provides lenders with lots of information about a customer's credit. The bank will also get its lawyers to check whether the household/business has been declared bankrupt by a judge in court.

Choosing a Source of Finance

We have seen that there are lots of different sources of finance for a business and a household to choose from. The next question therefore is: How do you decide which one to go for? Both a business and a household should consider the following factors:

1. **Cost**

   Households and businesses should shop around to find the **cheapest** source of finance they can get. The main cost of most sources of finance is interest. Different banks and lenders charge different interest rates. Many of them also charge fees, such as documentation fees, valuation fees and so on.

   Because all of these different fees and interest rates can make it difficult to spot the cheapest loan, all lenders in Ireland must by law display the Annual Percentage Rate (APR) they charge. The **Annual Percentage Rate** (APR) tells you the total the lender will charge you if you borrow the money for one year. It includes the interest charged by the lender and any other charges it imposes.

   Households and businesses should therefore compare the APRs (Annual Percentage Rates) of different lenders and choose the one with the lowest APR to get the best-value loan.

2. **Purpose of the Loan**

The appropriate source of finance is determined by what the household/business is going to buy with it. The household/business should **match** the source of finance to the item it is buying.

If it is buying something that it will only use for a short time (less than a year), it must use a short-term source of finance. Similarly, if it is buying something that it will use for a medium amount of time (between one and five years), it must use a medium-term source of finance. And finally, if it is buying something that it will use for a long period (more than five years), it must use a long-term source of finance.

The loan should never take longer to repay than the life of the asset they are buying with it. It makes no sense to be still paying for something that is no longer in use.

3. **Security**

The household/business must take into account whether it has to put up some of its assets as security (**collateral**) for the loan. If it cannot repay the loan, it stands to lose the assets pledged as security. Lenders will only take assets that hold their value or go up in value as collateral for a loan.

For most households, this means their house. For most businesses, this means their business premises. Therefore, the household/business must weigh up the advantages of a particular source of finance with the risk of losing their home/factory/shop, if security is required.

4. **Tax Implications**

Households and businesses must look at the source of finance to see if they will get a tax deduction for the interest they pay on it. If so, this will reduce their repayments and effectively lower the cost of the finance.

In the case of a business, debenture interest is tax deductible and will lower the business's tax bill, but dividends paid on equity shares will not.

5. **Control [Businesses Only]**

The business must look at the source of finance to see whether it involves the owner giving away some of her shares in the business. If so, this will reduce her ownership and control over her business.

A debenture loan does not involve giving away shares, but equity capital does. The business owner must balance her desire for capital with her desire to keep control over her business.

Bank Current Accounts

A current account is a bank account that businesses and households can use for handling money that comes in and goes out all the time. A current account provides the following services:

Standing order	■ A standing order (SO) is when the current account holder instructs his bank to take the same amount of money out of his account every period and pay it into the account of the person he names. ■ Standing orders are used to pay regular bills that are the **same amount** every month, such as TV streaming services, insurance premiums and debenture interest.
Direct debit	■ A direct debit (DD) is when the current account holder instructs her bank to take whatever sum of money it is told to by a person she names and pay it into their account every period. ■ It is similar to a standing order except that the **amount changes** each time. ■ It is used to pay bills such as telephone or electricity where the bill is a different amount every month.
SEPA	■ This is a system whereby an employee's net **wages** are paid directly into his bank account. His wages are transferred electronically from his employer's account into his. ■ It is safer than being paid in cash for both the employer and the employee.
ATM cards	■ ATM stands for Automated Teller Machine. ■ This is a facility that allows the current account holder to **withdraw** sums of money from her account using a machine. Withdrawals can be made 24 hours a day. ■ The account holder needs a PIN (Personal Identification Number) to access her account. ■ With an ATM card, she can also check her balance.
Debit cards	■ A debit card allows the account holder to pay for purchases. ■ To pay for an item, you insert the card into a chip and PIN reader and enter your PIN, or, for smaller amounts, you can use the contactless "tap" function of the card. The bank then automatically takes the money from your account and deposits it in the shop's account. ■ Debit cards are not the same as credit cards. With a debit card, the money is taken directly from your bank account then and there. With a credit card, no money is taken from your account. The credit card company, such as Mastercard, pays the bill for you and you pay them back at a later stage.
Bank statement	■ This is a document you receive from the bank (in hard or soft copy) showing you all the transactions (withdrawals and lodgements) that took place on the account over the period together with the balance left in the account.

Here is an example of a bank statement:

Bank of Glasnevin
1 Bank Street, Glasnevin. Tel: (01) 321 3214 Fax (01) 321 3213
Branch Code 80-50-01 Bank Indentifier Code BOGIE01

Gladys Finnie
123 Customer Row
GLASNEVIN

Account Name:	**Gladys Finnie**	Statement Date:	**30th December 2026**
Account No.:	**12345678**	Number	**Number 123**
Branch Sort Code:	**80-08-90**	IBAN	**IE09 BOGG 1213 1213 1213 12**

YOUR ACCOUNT STATEMENT

Date	Details	Debit - OUT	Credit - IN	Balance
1st Dec	Balance			100
2nd Dec	SEPA 12345		1200	1300
4th Dec	Vodafone DD	150		1150
6th Dec	ATM 20154	20		1130
19th Dec	Virgin Media SO	30		1100
27th Dec	Bank charges	10		1090

This bank statement is explained as follows:

DATE	EXPLANATION
1st December	Gladys Finnie had €100 in her current account, left over from November.
2nd December	Gladys's employer paid her wages of €1,200 directly into her bank account. This brought her balance up to €1,300.
4th December	Gladys's bank paid her Vodafone bill of €150 by direct debit. This reduced her balance to €1,150.
6th December	Gladys withdrew €20 from her account using her ATM card. This reduced her balance to €1,130.
19th December	Gladys's bank paid her regular monthly bill of €30 to Virgin Media. This reduced her balance to €1,100.
27th December	Gladys's bank charged her a fee of €10 for providing her with a current account. Her balance dropped to €1,090.

Household and Business Management

Chapters 5 to 13 have looked at management. We have looked at managing a business and managing a household. There are many similarities and differences between the two, as follows:

Common Activities

1. **Budgeting**
   - Both the manager of the business and the head of the household plan out all the cash they expect to receive and all the money they expect to spend in the future.
   - For example, the business manager will draw up a cash flow forecast. The household will draw up a household budget. This determines whether they will have cash left over (surplus) or if they will run short of cash (deficit).
   - Each can then take appropriate steps to deal with the deficit or surplus by arranging an overdraft or an investment opportunity, respectively.
2. **Sources of Finance**
   - Both a business and a household raise finance. Both fill in forms to apply for loans.
   - For example, both can use bank overdrafts to solve their short-term finance needs. Similarly, both use hire purchase and leasing for their medium-term needs.
   - Both must make decisions on the most suitable type of finance to be used. Both will try to choose the source of finance with the lowest Annual Percentage Rate (APR) to save money.
3. **Controlling**
   - Both a business and a household engage in the management activity of controlling. Businesses use stock control to make sure that they do not run out of products to sell to their customers.
   - Similarly, a family uses stock control to make sure that it does not run out of food to eat.
4. **Communications**
   - Both a business and a household use internal and external communications. The manager of the business uses internal communications to give instructions to employees. Similarly, the head of the household communicates instructions to children.
   - Both use external communications with banks to arrange loans, and with the government to pay taxes and submit tax returns.

Different Activities

1. Taxation

- Business managers have to work out the taxes the business owes. They must compute themselves the amount of self-assessment income tax or corporation tax and value added tax the business owes and pay this amount over to Revenue.
- In total contrast, households do not have to calculate their Pay As You Earn income tax or their VAT. Their employer and shops do this for them.

2. Size

- Businesses tend to be much larger than households. For this reason, the business owner often hires professional managers to run the business for her.
- In contrast, households tend to manage themselves. They usually do not hire outsiders to run the family.

3. Mission

- A business is set up with the main aim of producing and selling a product to make a profit. The manager has to persuade the public to buy the business's products by advertising them.
- In contrast, a household is not set up with this aim in mind. It is a social unit set up for love and support of all members.

4. Manpower Planning

- Businesses engage in manpower planning to make sure that they have the right number of employees to do all the jobs needed. If they have too few employees, they recruit more. If they have too many, they make redundancies.
- Households do not engage in manpower planning.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **three** items that could be included in the Receipts section of a business's cash flow forecast.
2. List **three** items that could be included in the Payments section of a business's cash flow forecast.
3. List **three** items that could be included in the Income section of a household budget.
4. List **three** items that could be included in the Expenditure section of a household budget.
5. Explain the term "spreadsheet".
6. List **three** sources of finance that a both a business and a household can use.
7. Distinguish between "credit card" and "trade credit".
8. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Bank overdraft
2. Accrued expenses
3. Factoring
4. Hire purchase
5. Leasing
6. Medium-term loan

Column 2: Explanations
(a) Business raises cash by selling its debtors to a bank
(b) Business raises cash by selling shares to investors
(c) Renting an asset
(d) Business/household uses utility services now (such as broadband, telephone or electricity), and pays for them later
(e) Short-term loan from a bank
(f) Pay for an item in instalments and own it when last instalment is paid
(g) Medium-term business loan from a bank

1	2	3	4	5	6

9. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	No interest is charged on a bank overdraft.	
B	Phone, gas and electricity are often financed by accrued expenses.	
C	Hire purchase interest paid by a business is tax deductible.	
D	Leasing reduces the owner's control over his business.	
E	When the European Central Bank increases interest rates, the repayments on a variable rate loan also increase.	

10. Explain the term "mortgage".
11. Outline **two** advantages of retained earnings as a source of finance for a business.

12. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. ATM
2. Standing order
3. SEPA
4. Debit card
5. PIN
6. Bank statement

Column 2: Explanations
(a) Document showing lodgements to, withdrawals from and balance on a current account
(b) Employee's wages are paid directly into her current account
(c) Bank takes fixed amount from current account at regular intervals to pay bills
(d) Form instructing bank to take a sum of money from a person's current account and pay it to another, on a once-off basis
(e) Automated Teller Machine
(f) Card used to pay bills. When the card is scanned in a shop, the bank deducts money the amount from the current account holder's account and pays it into the shop's account.
(g) Personal Identification Number

1	2	3	4	5	6

13. What do the following letters stand for? APR ATM ECB

EXAM SECTION 2 – LONG QUESTIONS

1. Outline **three** reasons why a business would prepare a cash flow forecast. (15 marks)
2. Explain **two** things that a business facing a predicted deficit in its cash flow forecast can do to solve this problem. (10 marks)
3. Name **three** sources of short-term finance available to a household and explain **one** of them. (25 marks)
4. Name **three** sources of medium-term finance available to a business and explain **one** of them. (25 marks)
5. Name **three** sources of long-term finance available to a business and explain **one** of them. (25 marks)
6. Explain **two** appropriate sources of finance suitable for the purchase of a new car by the Dunne household. (20 marks)
7. Explain **two** appropriate sources of finance suitable for the purchase of a new factory by Hyland Ltd. (20 marks)
8. List **two** pieces of information that a bank would look for from a household applying for a mortgage. (10 marks)
9. Describe **two** similarities between managing a business and managing a household. (10 marks)
10. Describe **two** differences between managing a business and managing a household. (10 marks)

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Outline your understanding of the term "cash flow forecast".
2. What is a spreadsheet? Explain its use in a household.
3. List **four** sources of finance that both a business and a household can use.
4. Define medium-term finance. Outline **two** medium-term finance options available for a newly established business.
5. The following table shows three sources of finance and four characteristics.
   For each characteristic, tick (✓) the source of finance that is most likely to match that characteristic.

	Debenture	Leasing	Trade credit
Increases the business's debt/equity ratio			
Used to purchase stock			
Short-term source of finance			
Discounts available for early repayment			

6. Distinguish between fixed rate loans and variable rate loans.
7. Define "long-term finance". Outline **two** long-term finance options available for a household.
8. Outline **two** advantages of grants as a source of finance for a business.
9. Define "retained earnings".
10. Outline **two** factors that a bank will take into account when considering whether to give a loan to a business.
11. In the context of banking, describe **two** features of a current account.
12. Distinguish between a "debit card" and a "credit card".

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Décor Ltd

Philippa Hudson used her redundancy package from her previous job to set up her own interior design business, Décor Ltd, one year ago. The business has prospered and Philippa now employs three painter/decorators and another designer.

Philippa is finding it difficult to manage her finances. She never knows from one month to the next if she'll have enough cash to pay her bills. Her bank recently turned her down for a loan.

Philippa needs to make a number of purchases in the near future. Her stock of paint is running low and she urgently needs to buy more. Her second-hand van is old and needs to be replaced. Work keeps flooding in and she is thinking of buying a second premises in a nearby town to expand the business.

(A) Outline how preparing a cash flow forecast will help Philippa's business. **(15 marks)**

(B) Recommend a source of finance for each of the three purchases Philippa wishes to make. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. The household budget of the Zhang family for next summer is set out below:

	July €	August €	September €	Total €
Income	12,000	14,000	8,000	34,000
Expenditure	9,000	13,900	11,500	34,400
Net cash	**3,000**	**100**	**(3,500)**	**(400)**
Opening cash	200	3,200	3,300	200
Closing cash	3,200	3,300	(200)	(200)

(i) Why would this budget be prepared by the Zhang household?

(ii) How might the Zhangs deal with the financial issue highlighted in this budget? **(20 marks)**

2. The cash flow forecast of Shropshire Hotel Ltd for next summer is set out below:

	July €	August €	September €	Total €
Receipts	240,000	360,000	100,000	700,000
Payments	220,000	400,000	180,000	800,000
Net cash	**20,000**	**(40,000)**	**(80,000)**	**(100,000)**
Opening cash	30,000	50,000	10,000	30,000
Closing cash	50,000	10,000	(70,000)	(70,000)

(i) Explain why a business would prepare a cash flow forecast.

(ii) In which month(s) has the above business got a problem? Outline possible reasons why. Suggest **two** things that the business can do to help solve the problems. **(20 marks)**

3. The Cleary household wishes to go on their annual holiday to Mayo. Recommend, with reasons, a suitable source of finance to fund their holiday. **(20 marks)**

4. Discuss whether leasing is a suitable source of finance for the acquisition of a van by a business. **(20 marks)**

5. Manning Ltd needs to purchase a new computer system and a new factory in Galway. Outline with reasons, a suitable source of finance to fund each purchase. **(20 marks)**

6. Describe **two** distinct situations requiring medium-term finance for a business and explain the most appropriate source of medium-term finance in each situation. **(20 marks)**

7. "Equity capital is the most appropriate long-term source of finance for a business." Discuss the reasons why a manager might deem this statement to be true. **(20 marks)**

8. Describe **four** criteria that banks use when considering loan applications. **(20 marks)**

9. In the context of banking, explain **five** different features of a current account. **(15 marks)**

10. Contrast managing a business with managing a household. **(10 marks)**

11. Compare managing a business with managing a household. **(10 marks)**

UNIT 5

CHAPTER 14

BUSINESS IDEAS

LEARNING OUTCOMES

In this chapter, we will look at:

- Where entrepreneurs can get business ideas from.
- The steps involved in turning a business idea into an actual product on sale.

If you are thinking about setting up your own business, the first thing you need is a good idea – one that will make you lots of money. You need to get your thinking cap on and think of a promising idea. You do not necessarily need to be an inventor. You just need to get **inspiration** from somewhere.

In the 1980s, Geoff Read noticed that sales of mineral water in Ireland were increasing, but that all of the brands were imported. He did some market research and spotted an opportunity for an Irish water. He resigned from his job and set up Ballygowan.

In 1990, Ireland played the Netherlands in the football World Cup. Irish fans in England could not watch the match because British TV was showing an England game instead. This inspired Michael O'Rourke and Leonard Ryan to rent a club in London, organise a satellite feed of the match and charge Irish fans £10 to watch it in the club. More than 800 Irish fans turned up. This success inspired O'Rourke and Ryan to set up Setanta Sports (now called Eir Sport) to broadcast Gaelic football and hurling into the UK and US.

Sources of Business Ideas

The entrepreneurs in the examples above became successful because they had an inspired idea for a business. So, the question is: Where do you get a good idea for a business? There are two main sources:

- **Internal sources** means getting ideas from your own strengths and weaknesses.
- **External sources** means getting ideas from opportunities and threats in the outside market.

Internal Sources of Business Ideas

1. **For New Entrepreneurs: Skills and Hobbies**

   A would-be entrepreneur may have special aptitudes or **talents** that he could turn into a profitable business. He may have been born with these aptitudes or may have learned and developed them over time.

Bill Gates developed an interest in software as a young boy. He began programming at 13 years of age. This lifelong interest in computers led him to set up Microsoft, which became the world's largest software maker.

His interest in health and fitness led Brian Lee to set up the healthy fast-food company Freshly Chopped in 2012.

2. For New Entrepreneurs: Experiences

A person wishing to set up her own business may have seen or **learned** something or had something happen to her that could give her the idea for a profitable business.

When her spray tan transferred onto her baby son's skin as he slept in the bed beside her, Marissa Carter was inspired to develop the world's first one-hour tan, a tan that does not need to develop overnight. She called her product Cocoa Brown.

When Kylie Jenner revealed to her online followers in 2015 that she used a particular shade of Mac lip liner, it sold out all over the world. This prompted Kylie to set up her own cosmetics business, Kylie Cosmetics, which she promotes to her followers through social media.

3. For Established Businesses: Research and Development (R&D)

R&D is a department within a business whose function is innovation. It carries out investigative activities with the intention of making a discovery that can either lead to the development of new products or to the improvement of existing products.

Coca-Cola has an R&D department whose job is to come up with new flavours and new products all the time, to help Coca Cola maintain sales against stiff competition from other soft drinks and juices.

Apple has a large R&D department, costing the company billions of dollars a year, because it competes in its market by developing devices that are better and more appealing than ones created by competitors.

4. For Established Businesses: Employee Suggestions

A business can get good ideas for new products and services from its employees. It can take advantage of its employees' initiative and enterprise and invite them to come forward with ideas for new products.

To encourage such **intrapreneurship** (*see Chapter 4*), the business can set up a formal employee suggestion scheme offering rewards for good ideas. It is also important that the managers are approachable and open to new ideas from workers.

Examples of businesses getting ideas from their employees include the following:

Art Fry, a worker at the stationery company 3M, attended a seminar given by another 3M scientist about a glue he had invented that was light and could be easily repositioned. Five years later, Art noticed that his bookmarks were constantly falling out of his hymnal during choir practice. He remembered the seminar and had a "eureka" moment, which resulted in him coming up with the idea for the Post-it. Post-its are now one of the most popular office products.

When some Microsoft workers saw the worldwide success of the Sony PlayStation, they thought of the idea of Microsoft developing its own games console. They worked on their idea, presented it to Bill Gates, and this led to Microsoft launching the Xbox, which made a lot of money for the company.

5. For Established Businesses: Brainstorming

Brainstorming is a technique that involves the business bringing a **group** of creative people from different parts of the business together to generate business ideas.

A leader starts the **discussion** among the group and invites everyone to call out as many ideas as they can. Hearing one person's idea may spark an idea in another person and this process can yield a long list of possible products for the business.

The group leader records all the ideas. No ideas are dismissed at this stage and no one is put down for making "stupid" suggestions. The aim is to encourage creativity and imagination.

At a brainstorming session, Jack Dorsey came up with the idea of a service that used texting (SMS) to tell small groups what you were doing. He gave the example of using it to tell people that the club he was at was great. The idea was developed into Twitter.

External Sources of Business Ideas

1. For New Entrepreneurs: Family and Friends

A would-be entrepreneur may get the inspiration for an idea for a business after hearing his family and friends complain about not being able to get a product or service they need.

In 1908, two friends, frustrated in their efforts to produce a smooth and tasty gravy asked their husbands to come up with a way of making the whole process easier. Mr Roberts and Mr Patterson, who worked in a salt company, got to work on the formulation that was to become Bisto.

Jack Odell thought of the idea for Matchbox toys when his daughter told him that she was allowed to bring toys into school only if they were small enough to fit into a matchbox.

2. **For Established Businesses: Customer Feedback**

A business can **survey** its customers for their opinions about the business and its products. The customers can tell the business what new products or improvements to existing products they would like. This can give the business ideas for new products.

> Examples of businesses that got ideas from its customers include the following:
>
> Pizza Hut observed customers in its restaurants. It noticed that although most families shared a pizza, each person usually wanted a different topping. This gave Pizza Hut the idea to launch its "4 for All" pizza (one pizza divided in four with four separate toppings) and sales went through the roof.
>
> McDonald's realised that fewer young people were eating in its restaurants. The company asked them why and found out that they perceived its food as unhealthy and fattening. This gave McDonald's the idea to launch "Salads Plus" and sell fruit and salads in its restaurants.

3. **For New and Established Businesses: Media**

A person wishing to set up her own business may get an idea by reading or seeing something in a newspaper, magazine, TV or on social media. These media give an indication of latest trends taking place that an entrepreneur can make money from.

> Media reports about the ever-increasing amount of money spent by men on their appearance encouraged the opening of The Grooming Rooms – a male only beauty and barbering salon in South William Street, Dublin 2.

4. **For New and Established Businesses: Import Substitution**

Import substitution involves entrepreneurs making an Irish version of products that are currently imported into Ireland. It is replacing imports with domestically made goods.

> Joe Murphy spotted that most of the crisps sold in Ireland were made in the UK. This inspired him to set up an Irish crisp business in 1954, which he called Tayto.

5. **For New and Established Businesses: State Agencies**

Irish **government agencies** provide ideas for new products and new markets. For example, Enterprise Ireland provides a "Market Research Centre" that provides market research reports on market trends and forecasts and business opportunities around the world.

6. **For Established Businesses: Competitors**

Businesses can get an idea by copying and adapting successful ideas developed by their rivals.

> Coca Cola launched Coca-Cola Energy when it saw the success of other energy drinks such as Red Bull and Monster Energy.
>
> When its dominant position in music was threatened by a decline in download sales, Apple copied Spotify and launched its own music streaming service, Apple Music, in 2015.
>
> Disney and Apple both launched streaming services to rival Netflix.

However, the business must make sure that it does not infringe on another business's patented or copyrighted ideas as this is illegal.

Development Process of a New Product/Service

Getting your idea may be considered the easy stage! The next thing you have to do is turn your idea into an actual product or service and make it available for sale to consumers. This is a complicated process involving a number of stages, as follows.

1. Idea Generation

The first step in bringing out a new product or service is to come up with lots of new ideas. In business, it is said that for every fifty to a hundred ideas a person might have, on average, only one will succeed.

The business can find good ideas from internal sources, such as its own R&D department, and external sources, such as the media. A good technique for generating ideas is brainstorming, where open-minded, creative thinkers from inside and outside the business gather and share ideas. The dynamic nature of group members floating ideas, where one idea often sparks another idea, can yield a long list of possible products for the business.

Example: Kellogg's Crunchy Nut Bites

Kellogg's conducted market research and asked customers what they would like in a new product and it looked at new trends and new products in the cereals market. Kellogg's used all of this research to generate a list of possible options for a Kellogg's Crunchy Nut product.

2. Product/Service Screening

Screening involves critically **evaluating** each one of the ideas generated in Step 1. This is done by conducting a SWOT analysis (*see Chapter 8*) on each idea to determine what are its strengths and weaknesses and what opportunities and threats it faces in the marketplace. The business looks to see if the idea is good enough to be a success in the market.

The purpose of screening is to spot the most attractive ideas, the ones that have the greatest potential for market success. It also helps to eliminate those ideas that are considered least likely to do well, which means the business avoids huge expense in developing ideas that will prove unsuccessful.

Example: Kellogg's Crunchy Nut Bites

Kellogg's put all the ideas it had generated up on boards. The boards had pictures showing product ideas and a description of what the new product would be like. These boards were then shown to a large group of representative consumers. They were asked to rate each idea so that Kellogg's could identify which product ideas consumers liked best or disliked. The research revealed that a new Crunchy Nut Bites idea was perceived as the most appealing amongst all the ideas tested.

3. Concept Development

Concept development turns the business's initial idea into a real and **concrete objective** to achieve. It gives the business a specific plan to follow to develop the product further.

It involves creating a detailed version of the product idea in meaningful consumer terms by drawing up a written document that sets out the answers to the following questions: What exactly will the product do? What will the product look like? What is its USP (unique selling point)?

A USP is some feature of a product that makes it different and sets it apart from the competition's product. That difference is valued by customers and attracts them to the product. For example, the USP of electric cars is that they do not use fossil fuels and are much better for the environment.

Example: Kellogg's Crunchy Nut Bites

Kellogg's developed the following concept for Crunchy Nut Bites: They would be an extension to the Crunchy Nut family of products but would provide a new flavour and texture for consumers.

4. Feasibility Study

A feasibility study is an investigation into the new product idea that seeks to establish two things:

(i) Is it actually **possible** to make the product? Does the technology exist so that the idea can be turned into a fully working product?

(ii) Is the idea **commercially viable**? The business will conduct market research to forecast what level of sales the product might enjoy. It will also analyse the costs involved in making and selling the product. It will use both of these to determine whether the idea is likely to be profitable or not.

The business might use a **cash flow forecast** (*see Chapter 13*) to predict the receipts and payments expected from the venture to see whether the idea is viable. It may also draw a **breakeven chart** (*see Chapter 15*) to work out how many products it will have to sell to ensure that all the expenses of the venture can be paid. Selling less than this breakeven amount will result in a loss for the business.

If the answer to either question is no, the product idea is not developed further. There is no point wasting time, money and effort continuing with an idea that is neither practical nor profitable.

Example: Kellogg's Crunchy Nut Bites

Kellogg's conducted extensive market research to calculate a sales forecast for the new product for the first and second year of sales. Kellogg's finance department drew up budgets to determine the costs involved in making Crunchy Nut Bites. All of the figures revealed that Crunchy Nut Bites would be highly profitable and so Kellogg's proceeded with the idea.

5. Prototype Development

A prototype is the first working model that the business makes of the new product. It is a sample or mock-up product made as an experiment to see whether the product idea actually works in practice and whether it would appeal to consumers.

A working prototype gives the business the opportunity to see how well the product works in practice. It helps to identify any problems with the product and the improvements that will make it better. This will help to make the final product more attractive to consumers, thus increasing sales in the future. By ensuring the product is perfect before launching it the business avoids wasting money on refunds and repairs from a major product recall on a faulty product.

The attempt to build a prototype helps the business to identify whether it has the necessary machinery and equipment needed to make the product and if not, it can take steps to address any engineering and production issues, so that the product can be made successfully.

Building a prototype also helps the business to identify what raw materials are needed to make it. This helps the business to see if it is possible to source a plentiful supply of these materials and of the quality required.

Example: Kellogg's Crunchy Nut Bites

Kellogg's made a number of different food prototypes, including a mini crispy lattice product and a nutty triangle. The Crunchy Nut Bites food prototype recipe was refined using the feedback from customer surveys until Kellogg's was satisfied that it had the perfect recipe.

6. Test Marketing

Test marketing involves launching the product on a small segment of the market and evaluating consumers' response to it. Consumers in the test market get to experience the product as well as other elements such as advertising and pricing, for real. They are then surveyed for their opinions on the product. Their reactions are used to refine the product, its price and the way it is advertised and distributed. This helps to further reduce the risk of the product failing.

Example: Kellogg's Crunchy Nut Bites

At Kellogg's, every product has to undergo one final test prior to a new product launch. This is called the "In Home Usage Test". Consumers are given the product to try for several days and this enables Kellogg's to see how consumers interact with the product for the first time. At the end of the trial, consumers complete a report on what they thought of the food in the form of a questionnaire. This final survey measures how appealing the new product is to consumers.

7. Product Launch

Full-scale production of the product now begins, and it is made available for sale in the entire market. The business must undertake a marketing campaign (*see Chapter 16*) to make consumers aware of the product and motivated to buy it.

Example: Kellogg's Crunchy Nut Bites

Kellogg's launched Crunchy Nut Bites in September 2008. Sales data show it was one of the best performing brands to launch in the breakfast cereal category with a sales value of almost €10 million in its first full year of sales.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **three** internal sources of business ideas.
2. Identify **two** external sources of business ideas and outline any one of them.
3. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Brainstorming is a technique for generating ideas.	
B	Employee suggestions are an internal source of business ideas.	
C	State agencies provide entrepreneurs with business ideas.	
D	A business can get an idea for a new product/service by copying its rivals.	
E	Internal sources of business ideas come from one's own strengths and weaknesses.	

4. Write out what the following letters stand for: R&D USP
5. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Idea generation	(a) Making the first working model of a product
2. Brainstorming	(b) Carried out to see whether the product will be profitable
3. Prototype development	(c) Launching the product on a small segment of the market
4. Concept development	(d) Eliminating ideas that have no chance of success
5. Product screening	(e) The first stage in new product/service development process
6. Feasibility study	(f) Writing a detailed analysis of exactly what a product will do
	(g) A group of creative people generates a list of ideas

1	2	3	4	5	6

6. What does "product/service screening" mean?
7. In the context of new product/service development, what does "test marketing" mean?
8. Put the following stages in new product/service development in the correct order: concept development, idea generation, test marketing, feasibility study, product launch, prototype development, product/service screening.

EXAM SECTION 2 – LONG QUESTIONS

1. Outline **three** internal sources of business ideas. **(15 marks)**
2. Using examples in each case, describe **three** external sources of business ideas. **(30 marks)**
3. Explain the term "brainstorming". **(10 marks)**
4. The stages in new product/service development include: idea generation, product/service screening and concept development. Explain what each of these stages means. **(30 marks)**
5. The stages in new product/service development include: feasibility study, prototype development and test marketing. Explain what each of these stages means. **(30 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "internal" and "external" sources of business ideas.
2. Illustrate your understanding of the term "import substitution".
3. Complete this sentence: The role of brainstorming in a business is to…
4. What do the letters R&D stand for? Explain the use of R&D in business.
5. Explain why a business would conduct a feasibility study.
6. What is a USP? Give two examples.
7. Define "prototype".
8. Complete this sentence: Test marketing helps a business to…
9. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Intrapreneurship
2. Media
3. Concept development
4. Product/service screening
5. Feasibility study

Column 2: Explanations
(a) Establishes whether an idea is commercially viable
(b) Internal source of new business ideas
(c) Examining ideas and dropping those with least potential
(d) Launching the product on a small segment of the market to see the reaction to it
(e) Turns an idea into a detailed statement of what the product will do
(f) External source of new business ideas

1	2	3	4	5

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Violet Ltd

Margaret Doyle is a very successful Irish entrepreneur. Her company, Violet Ltd, has interests in a number of business sectors including newspapers, airlines, cosmetics and fashion. Her budget airline business "Violair" was set up when she saw the success of other Irish budget airlines. She attributes her accomplishments to listening to other people. A conversation with her brother in which he complained about the lack of good quality childcare for his two daughters inspired Margaret to set up a successful nationwide chain of crèches. An employee's suggestion that she should set up a men's cosmetic range turned into a very profitable business.

Although she was not especially academic at school, she loved metalwork and her first business venture involved selling metal key rings in school. Recent TV reports on immigration inspired her to set up a Polish daily newspaper, which is now on sale throughout Ireland.

When she could not find fashionable clothes to fit her, she set up her own ladies' clothes shop specialising in larger sizes. Overhearing customers in the shop one day wishing that a similar shop was available for their husbands motivated her to set up a men's clothing store. Margaret's latest business venture is car manufacturing. She jumped on the idea as soon as she realised that no one else made cars in Ireland.

(A) Illustrate, from the above information, the internal sources of product ideas used by Margaret. **(20 marks)**

(B) Outline the external sources of product ideas employed by Margaret in the above situation. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Illustrate **three** internal sources of new business ideas. **(20 marks)**
2. Illustrate **three** external sources of new business ideas. **(20 marks)**
3. In the context of new product/service development, distinguish between concept development and prototype development. Illustrate your answer with reference to a product/service of your choice. **(20 marks)**
4. Outline the stages in the development process of a new product/service up to and including prototype development. **(25 marks)**
5. Discuss the importance of prototype development to the success of a new product/service. **(15 marks)**
6. Evaluate the importance of feasibility studies and test marketing in the new product/service development process. **(20 marks)**

NOTES

UNIT 5

CHAPTER 15

BREAKEVEN CHARTS

LEARNING OUTCOMES

In this chapter, we will look at:

- The decision whether a business idea is worth pursuing or not.
- The calculations involved in this decision.
- Drawing a graph to display these calculations.

In Chapter 14, we said that when an entrepreneur is developing a new product or service, she must establish if her idea is feasible. To help her with this, she can conduct a breakeven analysis and work out the breakeven point for the product. She can then use this information to see if her idea is likely to be commercially viable or not.

Breakeven Point (BEP)

The Breakeven Point (BEP) is the **number of products** a business must sell to make enough money just to cover all of its costs. It makes **neither a profit nor a loss**. The income (revenue) the business makes from selling its products is *exactly* equal to the total cost of making them. In business we say it is when **Total Revenue = Total Costs**.

For example, you organise the school debs at a total cost of €10,000 and you sell 100 tickets at €100 each = you make €10,000 on ticket sales. You have broken even. Your total revenue is exactly equal to your total cost.

A business's costs can be classified as either:

- **Fixed** – the cost never changes no matter how many products the business makes and sells. Factory rent is an example of a fixed cost. The cost of the rent is not dependent on how many products the business sells. Even if it sells nothing, the rent must still be paid in full.
- **Variable** – the cost increases or decreases as the number of products made and sold increases or decreases. The cost of ingredients is an example of a variable cost. The more products the business sells, the more ingredients it needs, so the cost increases.

These are the formulae for working out a business's breakeven point in units and in euro:

Breakeven point in units	Fixed Costs ÷ (Selling Price – Variable Cost)
Breakeven point in €	BEP in units × Selling Price

Example 1

Darius is considering setting up a business selling cakes in Temple Bar market.

He can rent a stall each Saturday for €360 (FIXED COSTS = €360).

He will sell each cake for €30
(SELLING PRICE = €30).

Each cake costs him €18 to make (VARIABLE COST = €18).

(a) How many cakes will Darius have to sell to break even?

(b) How much in euro will he have to sell to break even?

Answer

BEP in units	**Fixed Costs**	÷	**(Selling Price**	-	**Variable Cost)**
	€360	÷	(€30	-	€18)
	€360	÷	€12 profit on each cake		
	Answer = 30 cakes (or "units")				

We have seen that Darius must sell 30 cakes to break even. In other words, this is the **breakeven point in units**. We can express this figure another way. We can work out the amount of money he must take in to break even. This is called the **breakeven point in euro** and is worked out as follows:

BEP in €	**BEP in units**	×	**Selling Price**
	30 units	×	€30 each
	Answer = €900		

Darius now knows that in order to break even, he must sell at least 30 cakes or make €900 in sales every Saturday. If he sells any less than this, he will make a loss. If he sells any more, he will make a profit.

Obviously, he will not proceed with the idea if he thinks he will not sell enough cakes to at least break even. Let's say that Darius has done some market research and he estimates that he will probably sell 80 cakes every Saturday. What profit will he make if he does indeed sell 80 cakes?

We can work this out for Darius as follows:

A business's profit is defined as Total Revenue (TR) - Total Costs (TC).

Total revenue is the money the business makes from selling its products. It is calculated by multiplying the number of products sold by the selling price (Units × Selling Price).

Total Costs are all the money the business spends making the product. It is the total of the business's fixed costs and its variable costs (Units × Variable Cost per Unit).

PROFIT CALCULATION FOR DARIUS

		€	**€**
Total Revenue	Darius is going to sell 80 cakes at a selling price of €30 each, so his total revenue is:		2,400
Subtract Total Costs	Total costs = Variable Costs + Fixed Costs Variable Costs: Darius is going to make 80 cakes at a variable cost of €18 each, so his variable cost is:	1,440	
	His fixed costs are:	+ 360	
	Adding the variable costs and the fixed costs together gives total costs of:		(1,800)
Profit	Subtract the total costs of €1,800 from the total revenue of €2,400 to get Darius's profit:		**600**

Darius now knows that he will make a €600 profit if he sells the 80 units he expects to sell. But remember, he only *expects* to sell 80 units. This is just his estimate. What if he has a bad day at the Temple Bar Market? By how much can sales drop from what he expects before he is in trouble? We can work this out. It is called the margin of safety.

Margin of Safety

The margin of safety is the difference between a business's forecast sales and its breakeven point. It shows the business by how much its forecast sales can fall before it will start making a loss.

Margin of Safety	Forecast Sales in Units - BEP in Units

Example 1 continued

What is Darius's margin of safety?

Answer

MARGIN OF SAFETY

Forecast Sales in Units	-	**BEP in Units**
80 units	-	30 units

Answer = 50 units

Even if Darius's sales fall by 50 units, he will still break even.

The Breakeven Chart

What profit will Darius make is he sells 40 units? 63 units? 81 units? 218 units? Rather than working out the sums for every single sales number, many businesses will draw a **breakeven chart**. The business can then read the profit or loss figure straight from the chart for any given level of sales.

Steps in Drawing a Breakeven Chart

Step 1

- Do all your calculations first – work out the breakeven point in units and euro, the profit and the margin of safety.
- Breakeven is when the business's total revenue and total costs are exactly equal. So, to draw the breakeven point on a chart, you must draw the total revenue and total costs lines.

Step 2

- Put a heading on your breakeven chart: "Breakeven Chart for…".
- Draw a horizontal axis and label it "Output in Units".
- Look at the answers to your calculations – make sure that you can fit every number of the units on this line *exactly*.
- Draw a vertical axis and label it "Revenue and Costs in €".
- Look at the answers to your calculations – make sure that you can fit every € number on this line *exactly*.

Step 3

Draw the fixed costs line (it will help us to draw the total costs line). It is a straight line coming out of the number for fixed costs, parallel to the horizontal axis.

Step 4

Draw the total revenue line by plotting the following three points from your calculations:

- (0 units, €0) – if you sell zero units, you make zero revenue.
- (BEP in units, BEP in €).
- (Forecast sales in units, forecast sales in €).

Step 5

Draw the total cost line by plotting the following three points from your calculations:

- (0 units, € fixed costs) – if you make zero units, you incur zero variable costs, but you still have to pay the fixed costs. Total costs always start at the fixed costs line.
- (BEP in units, BEP in €) – if BEP is the point at which Total Revenue = Total Costs, once you know the total revenue the BEP makes, you automatically know that the total costs for BEP is the same number.
- (Forecast sales in units, total costs for forecast sales in €).

Step 6

The breakeven point is the point where the total revenue and total costs lines cross.

Step 7

Profit at forecast sales/output is the difference between total revenue and total costs at forecast sales.

Step 8

The margin of safety is the difference between forecast sales and breakeven point in units.

Example 2

Coogla Ltd is considering the introduction of a new product. The business has provided the following figures:

Fixed Costs	€200,000
Variable Cost per Unit	€5
Selling Price	€15
Forecast Output (Sales)	30,000 units

Illustrate by means of a breakeven chart:

(a) The breakeven point.

(b) Profit at forecast output.

(c) The margin of safety at forecast output.

Answer

Step 1

Do all your calculations first – work out the breakeven point in units and euro, the profit and the margin of safety.

BEP in units		**Fixed Costs**	÷	**(Selling Price**	-	**Variable Cost)**
	=	€200,000	÷	(€15	-	€5)
	=	€200,000	÷	€10		
	=	**Answer** = 20,000 units				

BEP in €		**BEP in units**	×	**Selling Price**
	=	20,000 units	×	€15
	=	**Answer** = €300,000		

PROFIT AT FORECAST OUTPUT CALCULATION FOR COOGLA LTD

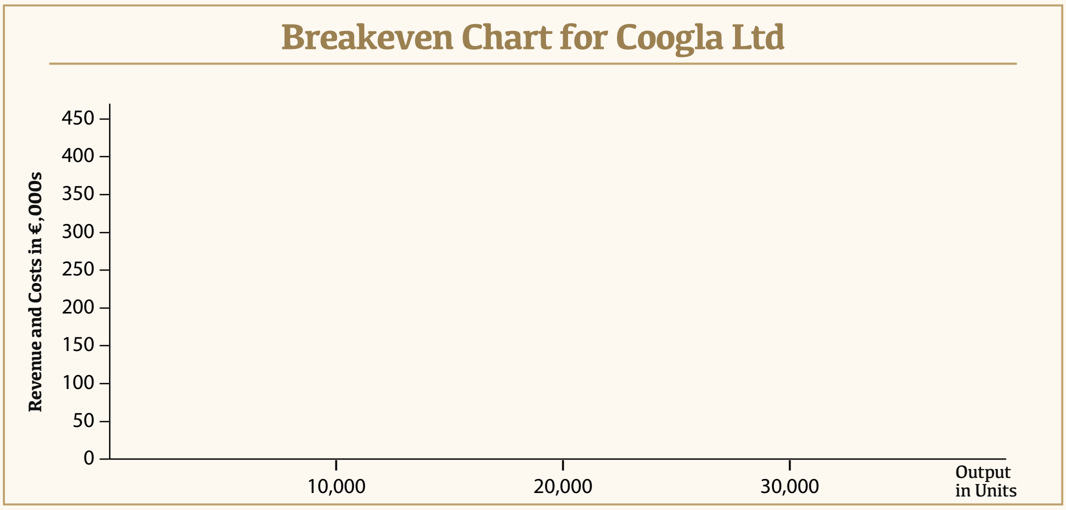
		€	€
Total Revenue	The company is forecasting it will sell 30,000 units at a selling price of €15 each, so its total revenue is:		450,000
Subtract Total Costs	Total costs = Variable Costs + Fixed Costs		
	Variable Costs: The company is forecasting it will make 30,000 units at a variable cost of €5 each, so its variable cost is:	150,000 +	
	Its fixed costs are:	200,000	
	Adding the variable costs and the fixed costs together gives total costs of:		(350,000)
Profit	Subtract the total costs of €350,000 from the total revenue of €450,00 to get profit:		**100,000**

MARGIN OF SAFETY

Forecast Sales in Units	-	**BEP in Units**
30,000 units	-	20,000 units
Answer = 10,000 units		

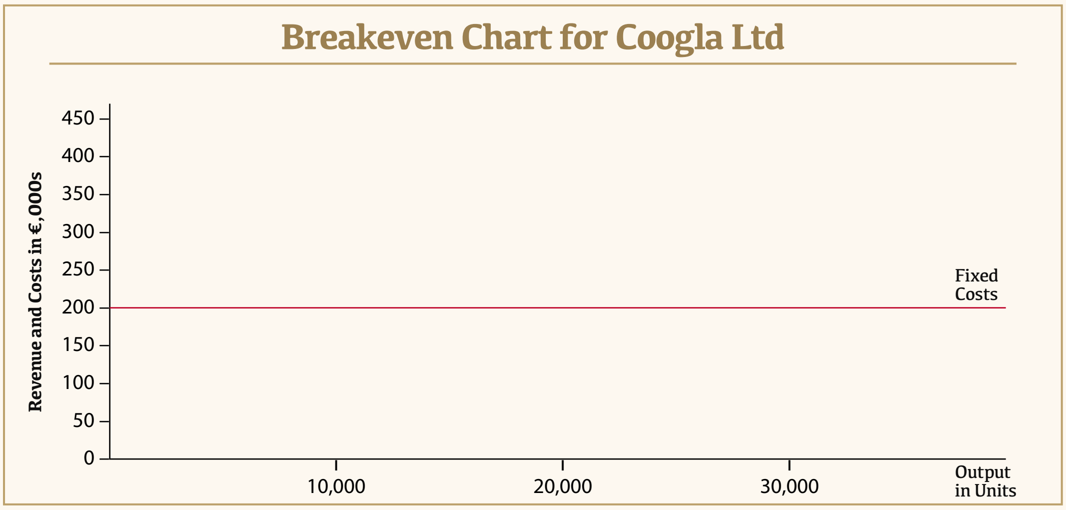
Step 2

- Put a heading on your breakeven chart: "Breakeven Chart for Coogla Ltd".
- Draw a horizontal axis and label it "Output in Units".
- Look at the answers to your calculations – make sure that you can fit every number of the units on this line *exactly*.
- Draw a vertical axis and label it "Revenue and Costs in €".
- Look at the answers to your calculations – make sure that you can fit every € number on this line *exactly*.



Step 3

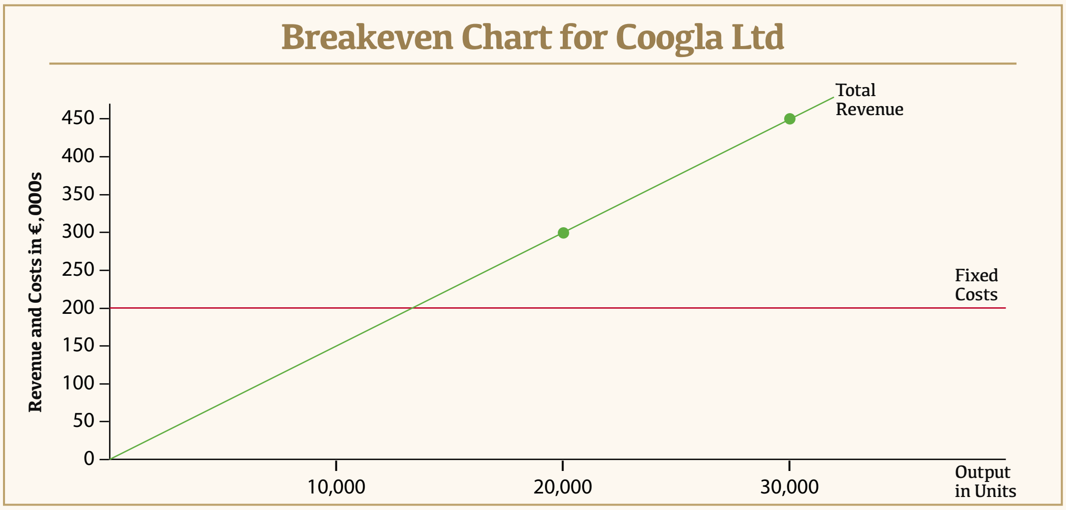
Draw the fixed costs line. It is a straight line coming out of the number for fixed costs, parallel to the horizontal axis.



Step 4

Draw the total revenue line by plotting the following three points from your calculations:

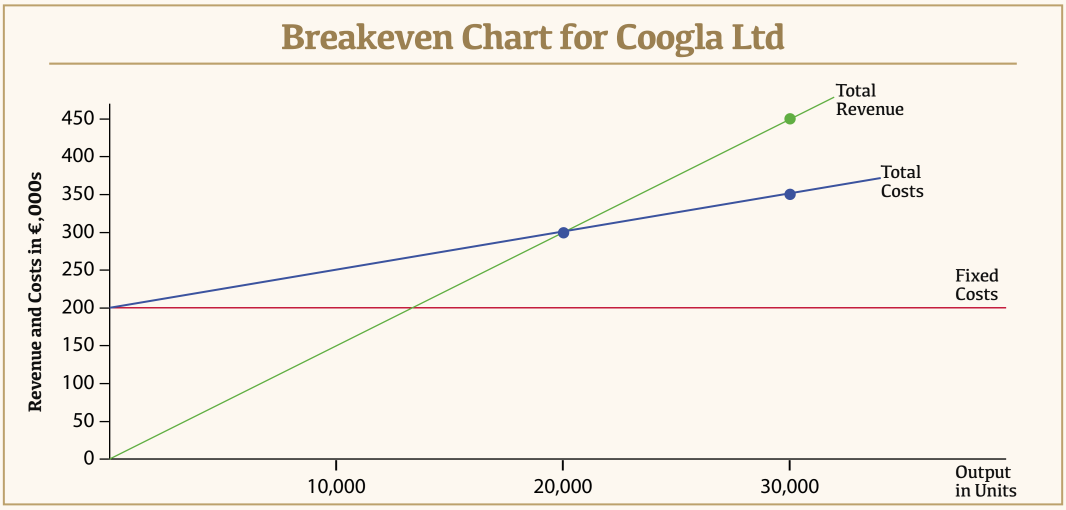
- (0 units, €0) – if you sell zero units, you make zero revenue.
- (BEP in units, BEP in €) – (20,000 units, €300,000).
- (Forecast sales in units, forecast sales in €) – (30,000 units, €450,000).



Step 5

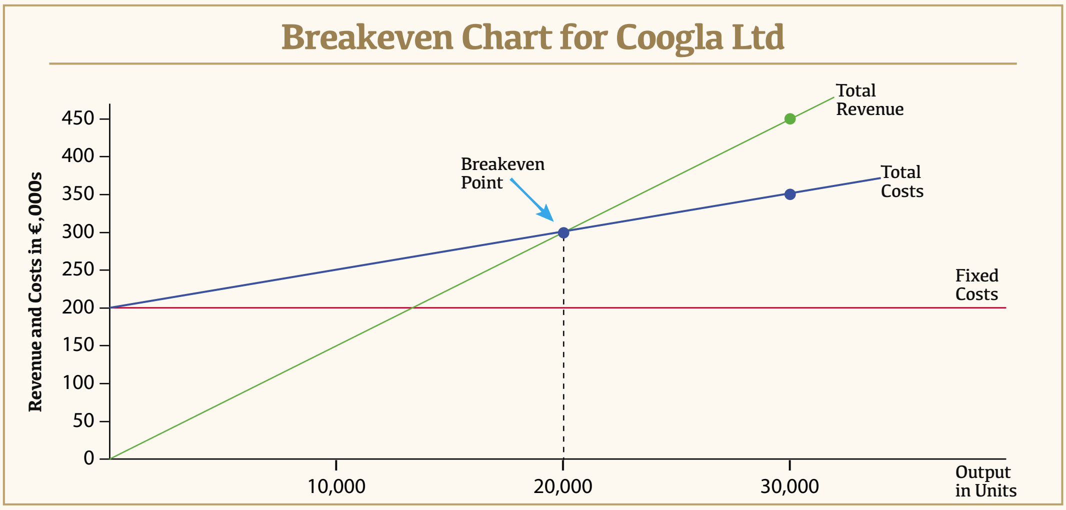
Draw the total cost line by plotting the following three points from your calculations:

- (0 units, € fixed costs) – if you make zero units, you incur zero variable costs, but you still have to pay the fixed costs. Total costs always start at the fixed costs line.
- (BEP in units, BEP in €) – if BEP is the point at which Total Revenue = Total Costs, once you know the total revenue the BEP makes, you automatically know that the total costs for BEP is the same number; (20,000 units, €300,000) for Coogla Ltd.
- (Forecast sales in units, total costs for forecast sales in €); (30,000 units, €350,000) for Coogla Ltd.



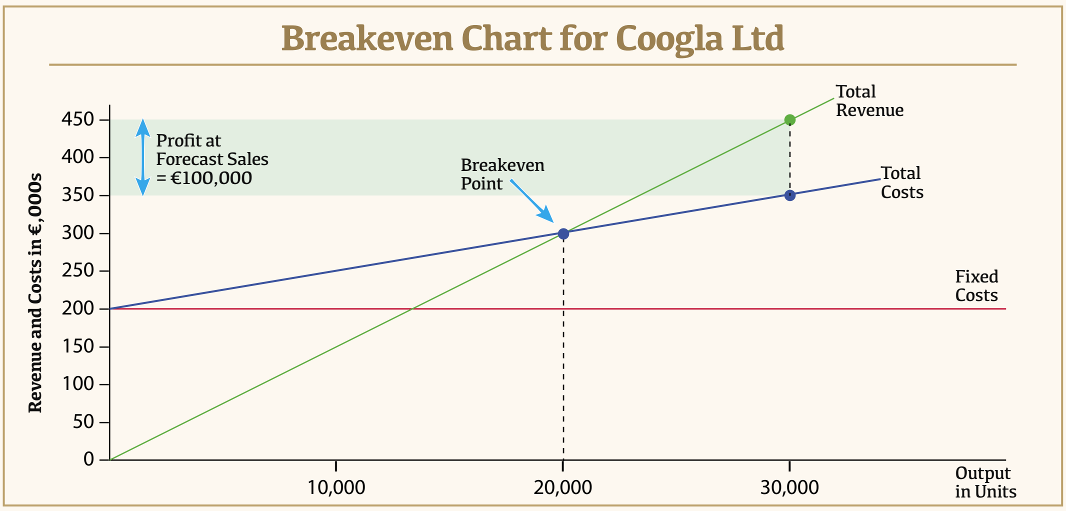
Step 6

The breakeven point is the point where the total revenue and total costs lines cross.



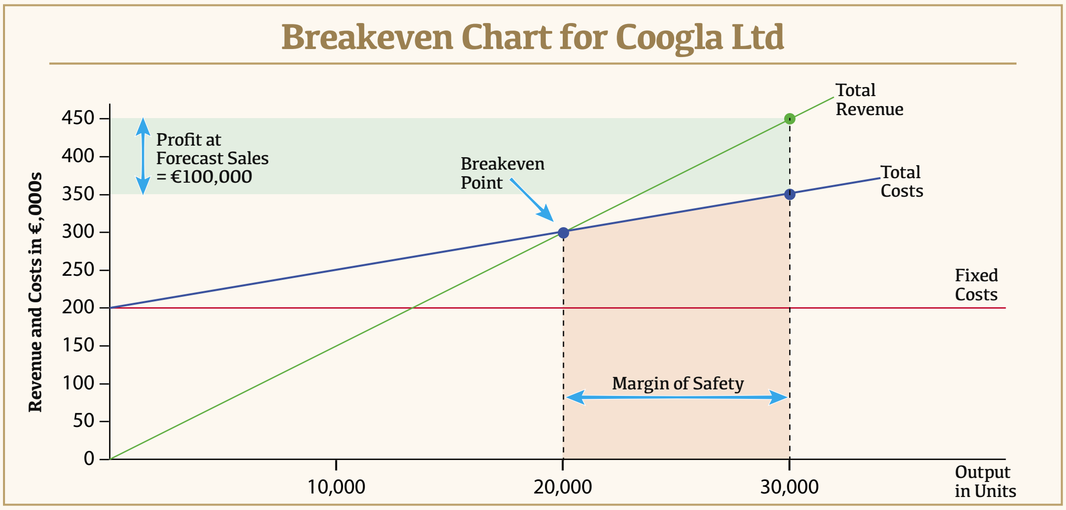
Step 7

Profit at forecast sales/output is the difference between total revenue and total costs at forecast sales.



Step 8

The margin of safety is the difference between forecast sales and breakeven point in units.



If you are asked to do a breakeven chart in the Leaving Certificate exam, this is the final solution that you need to show.

Strengths of Breakeven Analysis

- It lets the entrepreneur know how long it will take before her business start-up or new product reaches profitability – i.e. what sales are needed to pass breakeven point.
- It helps the entrepreneur to understand the feasibility of a business proposition. It lets her know if her idea is financially viable or not.
- The margin of safety calculation shows how much a sales forecast can prove over-optimistic before losses are incurred.
- Breakeven analysis illustrates the importance of a business start-up keeping its fixed costs down to a minimum (higher fixed costs = higher breakeven point).

Limitations of Breakeven Analysis

- Breakeven analysis assumes that the selling price of the product never changes. This is not correct. If a customer placed a very large order, he would expect a quantity discount on the normal selling price.
- Most businesses sell more than one product, so breakeven for the business becomes a lot more complicated to work out.
- Breakeven assumes that sales and output (the number of products the business makes) are the same – i.e., that the business sells everything it makes. This is unrealistic. It does not take into account the build-up of stocks.
- Variable costs do not always stay the same. For example, as output rises, the business may benefit from being able to buy ingredients at lower prices (quantity discount), which would reduce the variable cost per unit.

Ordinary Level Questions

1. Aoife has her own business. She tells you that her fixed costs are €4,000, her variable costs are €25 per unit and the selling price of her product is €45. Compute Aoife's breakeven point in units.
Show all workings.
2. Tomás runs a business selling luxury soaps. He sells each soap for €18. The variable cost of making each soap is €11. His fixed costs are €14,000. How many soaps must Tomás sell to break even?
Show all workings.
3. Fabiola runs a business selling candles for €12 each. The variable cost of making each candle is €9. Her fixed costs are €30,000. Calculate Fabiola's breakeven point in units and euro.
4. Daniel is a vet. The fixed costs of running his business are €80,000. He charges his clients a selling price of €60 to treat their pets and he estimates that the variable cost of treating each pet is €20.
How many pets would Daniel have to treat to break even?

NOTES

Higher Level Questions

1. A Ltd makes cups. The business has provided the following figures:

Fixed costs	€6,000
Variable costs per unit	€3
Forecast sales (output)	2,000 units
Selling price	€7

Illustrate by means of a breakeven chart:
   (a) The breakeven point.
   (b) Profit at forecast output.
   (c) The margin of safety at forecast output.

2. B Ltd makes bicycles. The business has provided the following figures:

Selling price	€400
Variable costs per unit	€100
Fixed costs	€30,000
Forecast sales (output)	150 units

Illustrate by means of a breakeven chart:
   (a) The breakeven point.
   (b) Profit at forecast output.
   (c) The margin of safety at forecast output.

3. C Ltd makes cakes. The business has provided the following figures:

Fixed costs	€360
Selling price	€30
Variable costs per unit	€18
Forecast sales (output)	50 units

Illustrate by means of a breakeven chart:
   (a) The breakeven point.
   (b) Profit at forecast output.
   (c) The margin of safety at forecast output.

Outline the effect on the breakeven point if the selling price decreased to €27 per unit.
Illustrate your answer on the breakeven chart.

4. D Ltd makes tables. The business has provided the following figures:

Fixed costs	€200,000
Variable costs per unit	€55
Forecast sales (output)	10,000 units
Selling price	€80

Illustrate by means of a breakeven chart:
   (a) The breakeven point.
   (b) Profit at forecast output.
   (c) The margin of safety at forecast output.

Outline the effect on the breakeven point if the fixed costs decreased to €180,000 and the selling price decreased to €75.
Illustrate your answer on the breakeven chart.

5. E Ltd makes computer games. The business has provided the following figures:

Variable costs per unit	€36
Fixed costs	€80,000
Selling price	€44
Forecast sales (output)	14,000 units

Illustrate by means of a breakeven chart:
   (a) The breakeven point.
   (b) Profit at forecast output.
   (c) The margin of safety at forecast output.

Outline the effect on the breakeven point if the variable costs per unit increases to €40 and the fixed costs increase to €100,000.
Illustrate your answer on the breakeven chart.

UNIT 5

CHAPTER 16

MARKETING

LEARNING OUTCOMES

In this chapter, we will look at:

- How and why businesses carry out market research.
- How businesses decide what sort of customer to attract.
- The four tools (known as the marketing mix) a business can use to encourage customers to buy its products/services.

In Chapter 14, we said that the final step in the development process of a new product is to launch the product on the market. At this stage, the business must undertake a marketing campaign to make consumers aware of the product and motivated to buy it. This chapter looks at marketing.

Definition of Marketing

Marketing is the management process of making sure that a business is providing the goods and services that customers want. It involves identifying and anticipating what consumers want today and will want in the future. Armed with this knowledge, the business can then start making such products. The business must then let customers know about its product and convince them to buy it, using four tools called the marketing mix.

Market Research

There is no point trying to convince consumers to buy a product that nobody needs or wants. So, the first step in marketing is to find out what consumers want. A business can do this through market research.

Market research is the systematic **collection**, **analysis** and **reporting** of **information** about marketing issues to enable managers to make effective marketing decisions. It helps a business to identify and anticipate what consumers want today and will want in the future. There are **two ways** to carry out market research, called field research and desk research.

Field Research

This involves the business going out into the marketplace ("field") and collecting information directly from consumers. It is also known as **primary** research. The business conducts its own original research for a specific project by designing the questions it wants answered and obtaining the answers **first-hand** from consumers.

The following techniques are used in field research:

1. Observation

Trained researchers **watch** customers in action and learn from how they behave and react in certain situations. They may look at how customers move around a shop and how they react to certain product displays in the store. Usually, the researchers do not tell customers that they are watching them because the customers might behave differently if they knew they were being observed. Observation enables the business to see what customers are doing **without interacting** with them directly. This reduces the impact of bias on the results obtained.

> Centra and SuperValu use observation. Skilled market researchers watch customers as they shop in the store to find out what prompts them to buy the products they do. Watching how customers shop has helped Centra and SuperValu to improve the layout of their stores and to maximise sales.

2. Focus Group

A focus group is when a business brings a **small group** of consumers together to **discuss** the business and its products. The aim is to capture feedback from the group about the ideas shown to them. A moderator from the business starts the discussion and invites people to offer an opinion. Participants are free to talk with other group members. The nature of the group discussion, whereby one person's contribution sparks contributions from others, gives the business very useful insights into consumers' perceptions, beliefs and attitudes.

Focus groups are used to collect **qualitative data**. This means that facts, feelings and opinions are collected. This type of information helps to develop new products that customers want. It also ensures that customers are satisfied with the service they have received.

> Vodafone Ireland holds regular focus groups at which it listens to groups of volunteer Vodafone customers who tell it how they think Vodafone could serve them better.

3. Survey

A survey involves market researchers **interviewing consumers directly**. Consumers are asked a series of questions and the researcher records all the answers. Consumers can be contacted by phone, mail, online survey or face-to-face.

The aim of a survey is to find out what people think and how many share the same opinion. Surveys produce qualitative data (people's opinions) and quantitative data (statistical facts and figures).

As it would be very difficult and expensive to survey everyone in Ireland, a survey usually involves questioning a **representative sample** of the population.

For example, Lily O'Brien Chocolates included a survey in its boxes of chocolates, asking customers to rate each of the chocolates. The answers helped the company to find out customers' most and least favourite products. It used this information to increase sales by making sure it is giving customers the chocolates they want and like.

Advantages of Field Research

- Designing its own research allows the business to address issues specific to its situation. It obtains the answers it needs to the questions it wants answered and from the consumers it is interested in (called its target market). Therefore, the information will be precisely relevant to the business.
- When the business conducts its own field research, it owns that information and does not have to share it with anyone else. Therefore, it may find out things that its competitors do not yet know. This gives the business a competitive advantage over its competitors.
- When a business conducts its own field research, it has full control over the whole research process and methodology. Therefore, it is assured that the research will be conducted correctly and that the information obtained will be accurate. It is more accurate and reliable than taking market research from another source (called secondary research).
- When a business conducts its own field research, it obtains immediate information about what is happening right now. Secondary data (research obtained from others) may have been collected some time ago (e.g., the census may have been conducted up to five years ago). Therefore, field research provides more recent data and a more up-to-date picture of the market.

Disadvantages of Field Research

- It costs a lot of money to conduct field research. Surveys may have to be compiled, printed and distributed. Interviewers have to be paid. Therefore, field research can involve a high cost for the business.
- To be done correctly, primary research requires the development and execution of a research plan. Going from the start point of deciding to undertake a research project to the end point, to having results, is often much longer than the time it takes to acquire secondary data (research obtained from others). Therefore, field research can take a lot of time to complete.

Desk Research

Desk research involves gathering data that someone else has already compiled and organised for you. It is also called **secondary** research. The information already exists, so the business does not have to go out and collect it first-hand. Desk research can be obtained from the following sources:

1. Internal Reports

A business can obtain information from **its own** sales reports and financial reports into matters such as what its most popular products are, which of its shops is the most successful and so on.

Brian Lee, of the healthy fast-food company Freshly Chopped, looks at the sales figures of every store every day. This helps him to establish how each outlet is performing and the popularity of each product. He says, "At Freshly Chopped we always introduce new menu items so it's important for me to see which ones are performing well."

2. Publications

The Irish government and many organisations publish a whole range of information that business people can buy or obtain free of charge.

Examples of government publications include the **census**, the Household Budget Survey and various other statistical reports from the Central Statistics Office (CSO). The CSO conducts monthly, quarterly and annual surveys covering all sectors of the economy.

> Centra decides where to locate its new supermarkets by using the census findings to spot the towns with growing populations.

3. Internet

If a business needs market research information on any topic, it can use online search engines (Google, Yahoo, Bing, and so on). For market researchers, the internet has two important sources of information:

- **Websites** that businesses, organisations and individuals have created to promote their products and views. A business can discover a lot about its competitors from their websites – the products/services they offer, the prices they charge and so on.
- **User groups** (news groups and discussion groups) that comprise people who have an interest in a particular subject. Researchers can read the discussions to find out what users think. If, for example, Cadbury's wanted to know what people thought of its creme eggs, they could look up threads about creme eggs on discussion websites such as boards.ie.

Advantages of Desk Research

- Obtaining information from secondary sources usually costs a lot less money than conducting original field research. Many sources are free of charge, such as internal reports, Enterprise Ireland, etc. Therefore, desk research can help the business to keep its costs down.
- Secondary data can be obtained more quickly than field research, particularly from online sources. This helps the business to get the information it needs more quickly and thus address marketing issues faster.
- There is lots of secondary data available that businesses can use to help them make effective decisions. Governments produce extensive amounts of data covering a wide spectrum of issues. The internet contains a huge amount of information that the business can easily search through.
- Desk research can often be the starting point for primary research. For instance, a new manager doing an analysis of the business's competition, but who is not familiar with the competitors in the market, could access secondary sources to locate a list of potential competitors. It can also help the business to identify important issues that are not covered by secondary sources and that therefore need to be addressed by field research.

Disadvantages of Desk Research

- The business has no control over the accuracy of the research. The person who conducted it may have made mistakes or carried it out in a biased way. Therefore, it tends to be less accurate and less reliable than primary research.
- The secondary research may have been done some time ago and is therefore out of date. The market situation may have changed drastically since the research was conducted and therefore it is of little use to the business when making decisions about the current situation.
- Secondary research is often freely available. The business's competitors can also access the same information. Therefore, it does not provide the business with any particular competitive advantage.

Importance of Market Research

1. **Market research can save the business money in the long run.**

   Market research can help the business to establish whether there is a demand for its product. By finding out in advance that consumers do not like the product idea, the business can avoid wasting money making a product that no-one will want to buy. Product ideas that get an unfavourable reaction in consumer surveys are not developed further.

   GAP changed their logo in 2010. Within a week, they had changed it back to the original. Customer backlash prompted them to maintain their brand identity. The problem with GAP's logo change was that—as they admitted—they did not consult their customers first. To their customers, nothing needed changing, yet they went ahead with a visual change anyway in the hope that their customers would follow. The company lost a lot of money because they did not conduct market research.

2. **It reduces the risk of failure for the product and the business.**

   Market research reduces the risk of a product failing. It gives a business a deeper understanding of its customers – what motivates them, what price they are willing to pay for the product and what improvements they would like to see made to it. Because the product is made in response to feedback from consumers, it is more likely to satisfy their needs and wants and therefore more likely to sell well.

   Before it was launched in 2002, the Dublin radio station Spin 1038 conducted research into what its target market of younger people (15 to 35 years old) liked most and least about radio. Most younger people disliked advertisements and DJs talking too much. Spin 1038 used this information to play more music and is now one of the most popular radio stations in Dublin among younger listeners.

3. **It helps a business to identify new markets.**

   Market research can help a business to discover the kind of products and services that customers would like, but which are currently not on sale. It can use this information to make such products and thereby increase its sales and profits.

   Coca-Cola obtained desk research which showed a growth in the number of smaller households in the population. The research helped the company spot a need for a Coke bottle size that was ideal for one to two-person households to share over dinner. This led to the company launching a new 1.25L bottle of Coke to satisfy this market segment. Coke's sales increased as a result.

4. **It helps a business to identify threats.**

   Market research can help a business to identify potential threats and sources of competition to its business. It can then develop strategies to defeat these threats and ensure the business continues to succeed. Failure to identify and react to changes in consumer preferences and the presence of competitors can cause successful businesses to lose market share.

For example, finding out (from its website) that a competitor's prices are much cheaper, the business can then adjust its own prices, to prevent consumers flocking to the competition.

In 2011, Nokia suffered a major decline in sales because it failed to research and understand the changes that were taking place in the mobile phone market. Others, such as Samsung and Apple, moved in and quickly became some of the leading electronics brands in the world.

Coca-Cola conducted research which revealed that 50% of consumers did not know that its Coke Zero product contained no sugar. This led the company to rename the brand as Coke Zero Sugar to help increase sales.

Market Segmentation

There are very few products that every single person likes. Different people have different tastes when it comes to food, clothes, cars, music and so on. Therefore, most businesses do not try to create a single product that appeals to all customers. Instead, they aim a product at a **particular group** of consumers who they think will like it. Such a group is called a market segment. A business identifies the different groups through market segmentation.

Market segmentation involves dividing the overall market for a product into separate and distinct groups of consumers. Consumers within each segment have similar needs and share common characteristics that are different from other segments. For example, the market for clothing can be divided into adult and child segments. Therefore, each segment may require different versions of the product, they may pay different prices and they may buy the product in different places.

The main ways to segment a market include:

1. Geographic Segmentation

The market is divided into **geographical areas**, such as countries, provinces, counties and cities, and so on. This is done when a business believes that consumers' location might influence what they need or want. It helps a business to make money by giving customers in a particular area exactly what they want and need.

The Irish radio market is segmented geographically, with each county having its own radio station (South East Radio in County Wexford, East Coast FM in County Wicklow, Tipp FM in County Tipperary and so on). Most local radio stations are number one in their region because they give people the local news about their community that national radio stations do not provide.

2. **Demographic Segmentation**
   The market is divided on the basis of different **characteristics** of the population such as gender and age. This is done when a business believes that consumers' gender or age might influence what they need or want.

> NIVEA segments the market for moisturisers on a gender basis. It produces a "NIVEA MEN" range as well as its traditional NIVEA range mainly aimed at women.
>
> Kellogg's segments the market for its cereals based on age. Kellogg's Frosties are aimed at the children segment. Kellogg's Crunchy Nut Cornflakes are aimed at the adult segment.

Advantages of Market Segmentation

Most businesses use market segmentation because it has lots of benefits for them. The main benefits of market segmentation are as follows:

1. Market segmentation helps a business to **increase sales**. When a business segments a market, it can identify a group of customers who might have been overlooked and ignored in the past. The business can then produce a product suitable to these customers' needs and therefore make massive sales in this segment.

> NIVEA's sales rocketed when it launched its range for men.

2. It helps a business to **lower its marketing costs**. The business can focus its marketing strategy on the particular segment of customers who are most likely to buy its products. Instead of wasting money devising lots of different marketing campaigns to appeal to lots of different types of customers for one product, the business only has to develop one campaign to appeal to the particular market segment it sells to. Better targeting of marketing activities also has a greater impact.

> Cadbury Darkmilk is a chocolate bar aimed at older adults. When first launched, its ad campaign only focussed on older adults by featuring famous pop singers from the 1980s (who older adults would know) and the slogan "It's a bit grown up".

3. It can be very difficult for a new business to enter an established industry. It can be easier to compete in a small segment. Market segmentation allows a business to **get a foothold** in a market by starting off small in one particular segment and then growing over time by gradually entering more and more segments.

> The radio station Newstalk started off in the Dublin segment of the radio market. When it became successful in this segment, it then had the money and reputation to launch nationwide.

Target Market

After a business segments a market, it then chooses a particular segment to aim its product at. It picks a segment that it believes will like its product and that it can satisfy better than the competition can. The particular **segment the business chooses** is called its target market.

A target market is a precise description of the type of customers a business aims its product at. It is the specific segment within the overall market for a product that a business sets its sights on.

> The target market for Penneys is budget-conscious consumers. The target market for the *Irish Times* newspaper is professional and business people.

Niche Market

A niche market is a **small** group of potential customers within a larger market segment for a product or service. These customers are not satisfied with the mainstream product in the market because they have different, more specialised, needs to the rest of the market. Generally, these customers are willing to pay a high price to the business that can satisfy their needs.

> A niche market within the car market is the market for wheelchair accessible vehicles.
>
> Within the market for shoes, a major segment is shoes aimed at women. This is served by many businesses. A niche market within this segment is the market for bridal shoes.

Advantages of Niche Marketing

- When a business offers a highly specific product, it will face less competition - there will be fewer businesses out there with the exact same offering. For example, there are millions of businesses that sell shoes. There are fewer that sell handmade shoes, and yet fewer that offer customised bridal shoes. Reduced competition allows the business to command a higher price.
- It helps a business to lower its marketing costs. Instead of wasting money devising lots of different marketing campaigns for a product (to appeal to lots of different types of customers), the business only has to develop one campaign to appeal to the particular niche market it sells to.

> A bridal shoe maker will only have to advertise in bridal magazines and at wedding fairs.

Disadvantages of Niche Marketing

- By definition, there are a relatively small number of customers in the niche market. There is limited opportunity for the business to increase profits and expand.
- Because of the small size of the market, the business will not make enough products to enjoy economies of scale. Furthermore, the specialised nature of the product may require highly skilled, and thus expensive, labour to make it. The business will therefore have high unit costs.

Marketing Concept

The marketing concept is a theory in marketing that states that the **customer** is the most important person to the business. The business must find out and understand what customers need and then make products that satisfy customers' needs better than competitors can. Keeping the customer happy is the way to make money.

Brown Thomas offers its customers high-quality products and excellent customer service, including a personal shopping service.

When customers are treated well by the business and get good quality products and service:

1. They are happy and so they will continue to buy more of the business's products. The business enjoys repeat sales and hence its **sales increase**. This leads to increased profits for the business.
2. They tell their friends about the business and word of mouth spreads about how good the business is to its customers. This leads to a **better reputation** and enhanced goodwill for the business. This acts as a form of free advertising for the business.
3. They will not have any reason to complain to the business afterwards. Thus, there are fewer returns and repairs. This **reduces the business's costs**, as money is not wasted on these.

Marketing Plan

A marketing plan is a written plan that sets out the marketing objectives a business wishes to achieve (such as increasing sales) and then puts in place a series of marketing strategies to ensure those objectives are achieved.

Benefits of a Marketing Plan

- It sets out well thought-out steps (strategies) that the business must take in order to attract and keep customers. Thus, it acts like a road map, guiding the business towards increased sales and profits.
- It helps the business to control its progress. After a while, the business can measure its actual performance against the goals it set in its marketing plan. If it is off target, the business can take steps to get back on target. Thus, it helps the business to identify the strategies that are working and eradicate those that are not.
- A good marketing plan shows potential investors that the business knows its market well and has good marketing strategies to help it be profitable and earn a decent return for the investor. Thus, it will persuade them to provide the business with the capital it needs to develop and expand.

Marketing Mix

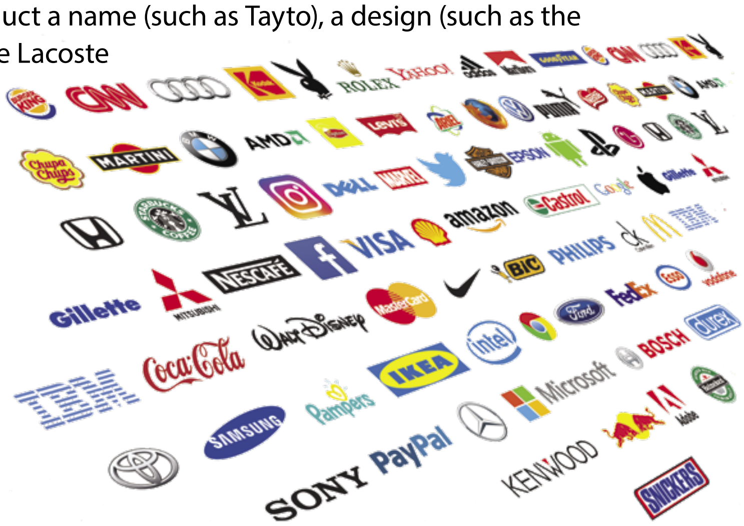
The marketing mix consists of four tools that a business can use to persuade customers to buy its products. The four tools are known as the 4Ps: Product, Price, Promotion and Place.

Marketing Mix (4Ps) – Product

A product is defined as a **bundle of benefits** that satisfies the needs or wants of consumers. To help its product sell in greater quantities, the business must give a lot of consideration to the product brand name, design and packaging it uses.

Product Brand Name

A brand name is when a business gives its product a name (such as Tayto), a design (such as the red Coca-Cola can) and/or a symbol (such as the Lacoste crocodile) to make it easy for consumers to identify it and to make it stand out from its competitors' products.



Branding offers many benefits to a business as follows:

1. Businesses can charge a **higher price** for their products and hence increase profits. Many consumers think that branded goods are better quality and offer more benefits than non-branded goods and so are willing to pay more for them.

> Kerrygold butter can charge a higher price than its competitors because many people consider it to be a quality Irish brand that comes from a clean and green country.

2. Branding helps a business to **increase sales**. When consumers know a brand name, it makes it easier for them to buy the product. They recognise the name in the shop and they pick it up straight away. Therefore, the business does not have to rely on salespeople in stores to push its product. The product sells itself.

> If an Irish person is holidaying abroad and is looking for butter, she will instantly recognise Kerrygold, know exactly what it is and buy it straight away in preference to foreign brands she may not know.

3. Branding makes consumers "**brand loyal**". They form an attachment to and a bond with the brand and stick with it even if the price goes up. This gives the business a competitive advantage over its competitors.

> Even if other butters drop their prices, most Kerrygold customers will stay with Kerrygold because they have built up a lifelong affinity with it.

4. Once a business has a famous brand name, it is easy for it to **launch new products** under the same name as consumers will accept it readily because they already know and trust the name.

> Kerrygold capitalised on its famous name and now sells a range of cheeses and powdered milk in addition to butter. It also launched its own alcoholic liqueur called Kerrygold Irish Cream Liqueur and its own range of shortbread biscuits.

5. A famous brand name gives a business a lot of **power** over shops. The business can command a good deal from shops because customers may stay away from a shop that does not stock the brand.

Kerrygold gets excellent shelf space in supermarkets and does not have to offer them massive discounts.

Own-brand Products

Own-brand products are products that carry the **name of the shop** that sells them (e.g. "Tesco Finest") or a brand name **developed for the shop** (e.g. Dunnes Stores' "Simply Better" brand) and not the name of the manufacturer who makes them for the shop.

Own-brand products have many advantages. For customers, they tend to be cheaper than leading brand names while usually being of equally good quality. They also offer customers more choice of products.

They also have many advantages for the shop (retailer):

1. They allow the retailer to offer customers **lower priced products**, which is important to help it attract budget conscious consumers to the store and to compete with discount stores.
2. It gives the retailer a **competitive advantage** over its competitors. The own-brand products are not available anywhere else. This differentiates the retailer from others and helps to win customers.

Many people shop in Boots because they like its quality own-brand Boots No 7 cosmetics, which are not available in any other store.

3. The retailer can get a large **discount** from the manufacturer who makes the products for it. This is because the extra business gives the manufacturer greater economies of scale and he does not have to spend any money developing the brand.
4. It gives the retailer more **bargaining power** with famous brand name suppliers. Because the retailer now stocks own-brand products, there is less room in the store for other goods. Suppliers will compete with each other for the limited shelf space in the store by offering better discounts and terms to the retailer.

Product Design

Product design is the process of creating a product which is attractive and appealing to customers and which works excellently. Good product design incorporates the following:

- **Aesthetics**: This refers to how the product looks – its shape, style and colour. It is important that the product looks good and is appealing to consumers.

A car manufacturer may introduce a new model by changing the bodywork and the interior as these appeal to people's senses. The engine may not change at all.

- **Function**: The product must be well-designed, so that it does the job that it is intended to do.

Some car manufacturers are so confident in their design that they give their cars a five-year warranty.

- **Cost-effectiveness**: Good design helps the business to make products that are easy to assemble and that can be made at a reasonable cost.

Importance of Product Design

1. Good design **increases sales**.

   Consumers want well-designed products – those that look good and are easy to use and maintain. Businesses that offer such products enjoy increased sales.

> Apple is successful because it designs its products to look clean, simple and straightforward, while staying high-quality and highly functional. Everything from chargers to earbuds is carefully designed to look good while doing its job.

2. Good design **reduces costs**.

   Well-designed products work excellently and do the job they are intended to do. They do not break down or develop faults. This helps the business to minimise the amount of money it has to spend recalling and repairing badly designed products or offering unhappy customers a refund.
3. Good design **saves time**.

   Good design focuses on manufacturing issues at an early stage in the design process. It helps the business to make products that are easy and cost effective to manufacture.

> IBM cut the time it takes to assemble one of its printers from 30 minutes to three minutes by improving the design of it.

Product Packaging

Packaging is the container or wrapping in which the product is offered for sale and can consist of a variety of materials such as glass, paper, metal or plastic depending on what is to be contained. Packaging is very important for the following reasons:

1. Increased Sales

The packaging is often the consumer's first point of contact with the actual product. Attractive and eye-catching packaging gets customers attention and attracts them to the product. Thus, packaging helps the business to sell more products.

> Cadbury once used a wrapper for its Dairy Milk bar with the words "only 95 calories!" emblazoned across it. The wrapper attracted a lot of calorie-conscious people to the bar and sales increased as a direct result.
>
> Coca Cola's packaging featuring the slogan "share a Coke with" followed by different names helped Coke to increase sales.

2. **Protection**

Packaging protects the product during transportation by the manufacturer and storage by the retailer so that it arrives at the consumer intact. This reduces breakage, leakage and deterioration costs for the business. Tetra Pak packaging makes sure that liquids do not spill from juice and milk cartons.

3. **Information**

The various items of information printed on packaging provide the consumer with details about the contents of the product. It can also give consumers clear instructions as to how to use the product successfully.

> Cereal packets give information about the ingredients and micronutrients, the sell-by date and who to contact with problems or questions about the product.
>
> Pharmaceutical companies use the packaging of their medicines to inform customers of the correct dosage to take.

4. **Image**

The packaging is used to display the product and give it a certain image. To reinforce the idea that it is a prestigious luxury product, a Rolex watch comes in a luxurious box. To give them a manly image, men's moisturisers are packaged in colours that are perceived as "masculine", such as black, navy, silver and grey.

> When Coke Zero was first launched in the U.S. in June 2005, it was not an overnight success. It debuted in white cans to help the brand stand out on store shelves. Many young males – the target market for the product – associated the white labels with feminine-leaning diet drinks. Coke Zero needed a more masculine look and message. The company changed the packaging and the product proved much more successful among young males.

5. **Convenience**

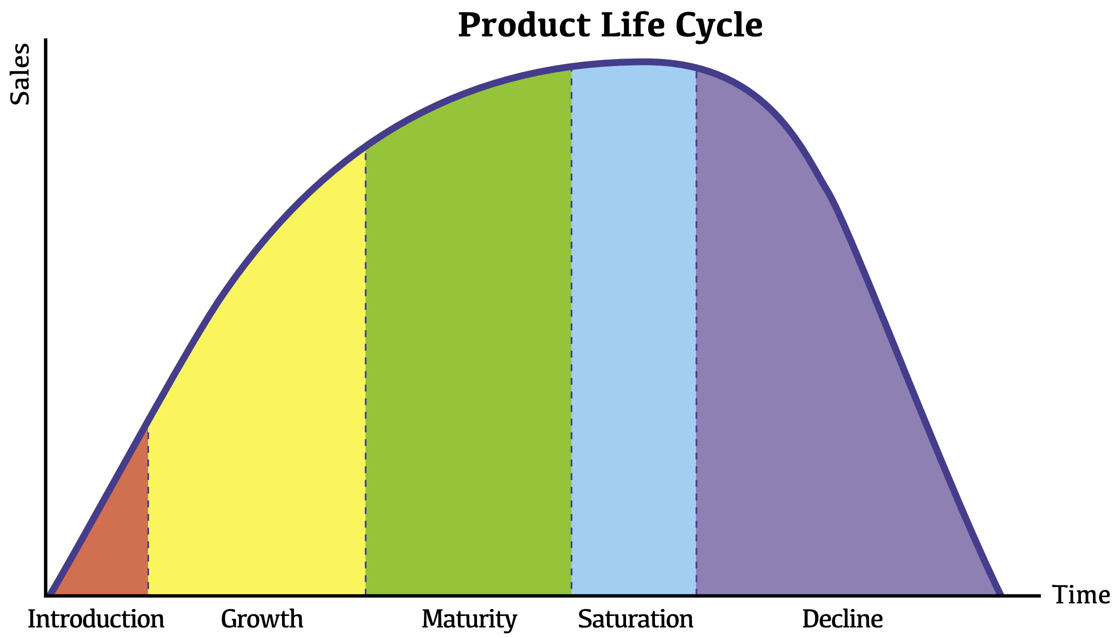
A business can put its product into different size packaging for customers to use in different situations.

> Coca-Cola produces a 2L bottle of Coke for families to drink at home, a 1.25L bottle for smaller households and a 500ml bottle for on-the-move consumption.
>
> Heinz makes its beans available in larger tins for families and also in smaller microwavable packages for individuals.

Product Life Cycle

Sales of a product change over time. Like humans, products have a life cycle: they are "born", "grow up", "mature" and eventually "die".

The product life cycle charts the five stages of a product's sales over time. Businesses can use their knowledge of the product life cycle to develop the best strategy for that stage. The diagram charts the stages in the sales history of a product:



1. **Introduction/Launch**

   The business first launches the product on the market. Sales are usually low at first because few people have heard about the product and those who have may be afraid to try it until they hear good reports about it from people they know.

   The business must spend a lot of money to promote the product to make it known. It usually does not make a profit at this stage because it is selling very little but spending a lot on promotion.

   There is little or no competition. Competitors are waiting to see if the product will succeed before they enter the market.

   The business may use a price skimming strategy (see later in this chapter) and charge a very high price for the product, so that it can recoup the money it spent developing it. For example, many games consoles and mobile phones are very expensive when they are first launched.

2. **Growth**

   Sales of the product begin to increase rapidly. The product has proved successful among the initial customers who bought it and, as word spreads, more people begin to buy it. Profits start to increase. This causes new competitors to enter the market with their version of the product.

3. **Maturity**

   The rate of sales growth slows down. Sales continue to rise, but not as much as during the growth stage and sales of the product reach their highest level. The product has been accepted and bought by most consumers. The business is making large profits on the product. There is intense competition in the market.

4. **Saturation**

   Sales of the product remain at their peak for some time but do not grow any further. Everyone who wants the product now has bought it. Because sales remain so high, the business is

making a lot of money from the product. However, there is very little opportunity to increase sales any further. The market is now full of similar products.

To maintain sales in the face of this stiff competition, businesses will cut prices and/or bring out "new and improved" versions. They may also spend a lot of money on marketing to fight back against the intense competition.

5. **Decline**

Sales of the product fall permanently. This may be because consumer tastes have changed, or new technology makes the product obsolete (for example, iPhones have replaced iPods when it comes to playing music). The business takes the product off the market as soon as it no longer is profitable.

How to Extend a Product's Life Cycle

A business can rejuvenate interest in a product that is in the latter stages of its life cycle in a number of ways, as follows:

Product

The business can extend the product's life cycle by bringing out new and improved versions of the product. Adding extra benefits and features to the product helps to reawaken consumers' jaded interest in it and sales are maintained.

> Many car manufacturers will improve their mature models by adding power steering, leather seats and alloy wheels, etc. to it. This tempts customers away from newer but more basic competitor's cars.

Price

The business can extend the product's life cycle by dropping the price of it during the saturation stage. This will motivate budget-conscious consumers who have not yet bought the product to now purchase it, thus leading to more sales.

> Sales of the iPhone 12 dropped once it was announced that the iPhone 13 was soon to be launched. Apple reduced the price of the iPhone 12 to boost demand for it. This worked, as consumers who were not especially motivated to own the latest technology flocked to the iPhone 12 because it was cheaper, thus extending its sales life.

Promotion

The business can extend the product's life cycle by promoting it in a different way. It can reposition the product by publicising new uses for it. This attracts new customers to the brand who never previously bought it.

> Lucozade used to be considered a drink for sick people in hospital. Lucozade re-launched the product and promoted it as one with attractive benefits for sports people. This completely revitalised the brand and extended its life cycle greatly.

Place

The business can extend the product's life cycle by distributing it to consumers in new ways. It could sell its products online to attract customers from all over the world. It could sell directly to customers through a shopping channel or over the internet.

> To extend the sales of a movie after it leaves the cinemas, film companies will make it available for sale on streaming platforms and pay movie channels and later will release it on DVD/Blu-ray.

Marketing Mix (4Ps) – Price

The price is the amount of money the business charges consumers for its product. It is important that the business charges the right price for its product. If it is too high, consumers will not be able to afford it and the product will not sell. If it is too low, the business might make a loss and consumers might think the product is inferior. Therefore, what is the *right* price that a business should charge for its products?

Factors that Determine the Price

When setting the price for its products, the business should consider the following factors:

1. **Cost of the Product**

   The business must charge a price that is at least equal to the total cost of making and selling the product. This is called the **breakeven** price (*see Chapter 15*). This is the absolute minimum the business can charge for the product. If it charges less than this, it will make a loss.

2. **Competitors' Prices**

   The price the business can charge for its product is determined by what its competitors charge.

   - If the competitors' product is better quality, the business must charge a lower price. Otherwise, nobody will buy it. This is why Swatch watches are cheaper than Rolex watches.
   - If the competitors' product is of inferior quality, the business can charge a higher price than them. People will pay more for a superior product. This is why freshly squeezed orange juice is dearer than orange juice made from concentrate.
   - If the competitors' product is of a similar quality, the business must charge a similar price. This is why Coca-Cola and Pepsi are roughly the same price.

3. **Consumers**

   The amount of money the business can charge for its product is determined by how much its **target market** can afford. The business must know its customers' price range – i.e. how much they are willing to spend on the product, and set the price within this range.

   > Penneys sells jeans for less than €20, as it knows that its target market consists mainly of bargain conscious consumers with a limited budget. Brown Thomas sells jeans costing over €200 as its target market tends to have a higher disposable income.

4. **Legal Regulations**

   Government taxes such as value added tax (*see Chapter 12*) and excise duties (on cigarettes and petrol) will increase the price the business has to charge for its product. Furthermore, in certain situations, the government has the legal power to set the maximum or minimum price that a business is allowed to charge for its product.

In 2022, the government introduced "minimum unit pricing" for alcohol in Ireland to stop the sale of cheap alcohol.

Strategies/Policies for Setting the Price

Another useful guide to help a business when it is picking the price for its products is to look at some common pricing strategies. These can help the business to choose the right price for the situation that it is facing. The main pricing strategies are set out below:

1. Price Skimming

- The business charges a high price for its product when it first comes out. It does so because it knows that certain consumers will pay "any" price to be the first with the latest product.
- Thus, the business make lots of money which helps it quickly recoup the costs incurred on developing the product. The business reduces the price later on (as competition enters the market and to help the business maintain sales).

New mobile phones and new games consoles tend to be very expensive when they are first launched.

2. Penetration Pricing

- The business deliberately charges a low price for its product when it first comes out, so that it is cheaper than its competitors. The business undercuts its competitors to attract their customers to switch over to it as soon as possible. This helps the business to increase its market share (gain more customers).
- When it has gained sufficient market share, the business then may raise its price.

When Apple TV Plus was launched, the company set the price at €4.99 per month, which undercut its main rivals Netflix, Amazon Prime Video and Disney Plus.

3. Premium Pricing

- Premium pricing is the strategy of consistently pricing a product at, or near, the high end of the possible price range to help attract status-conscious consumers.
- The high pricing is used to enhance and reinforce a product's luxury image. Examples of businesses which use premium pricing in the marketplace include Rolex and Gucci.
- Consumers will buy a premium priced product because they believe the high price is an indication of good quality and because it signals their success and status to other people.

4. Price Discrimination

- The business charges different customers different prices for its product. It does this because it knows that different people can afford different amounts and by charging consumers the most they can afford, the business increases its profits.

> If Spotify Premium charged everyone the same price, many students might not subscribe as it might be too expensive for them. So, to attract the student market, Spotify Premium sells to them at a reduced rate.

- Some airlines offer first and business class categories at vastly increased prices because they know that certain people will pay a lot of money for the extra comfort and "exclusivity" offered. The airlines make much greater profits from the small number of customers flying these classes than from all the passengers flying economy class.

5. Loss Leader

- The business sells one product below cost price, i.e. for less than it paid for it. It sells it so cheaply that the business is actually losing money on it.
- The aim is to attract customers who like a bargain into the store to take advantage of the good deal. But when they come, hopefully they will engage in impulse buying and buy a lot more products than just the loss leader.

> A lot of the major supermarkets in Ireland used to sell bottled beers below cost to attract customers to their shop.

SUMMARY OF PRICING STRATEGIES

	What it is	Purpose
Price skimming	High price initially; then lower it	Make as much money back as quickly as possible
Penetration pricing	Low price initially; then raise it	Win customers away from competitors
Premium pricing	ALWAYS high price	Attract status-conscious consumers
Price discrimination	Different customers are charged different prices	Maximise profits
Loss leader pricing	Sell one product for less than you paid for it	Attract customers to the business to get them to impulse buy other products

Marketing Mix (4Ps) – Promotion

If consumers do not know that a business' product exists, they cannot buy it. It does not matter how good the product is or how attractive its price is. It will not sell unless people know about it.

This is where promotion comes in. The business has to **let the public know** that its product is on sale. It has to get them interested in the product and motivated to buy it.

Promotion involves communicating with customers to let them know about the product and to persuade them to buy it. It involves letting them what the product will do for them. The aim is to make them aware of the product, to get them interested in it and ultimately motivated to go out and buy it. There are four main ways to promote a product:

1. Advertising
2. Sales promotion
3. Public Relations
4. Personal selling

Promotion 1: Advertising

Advertising is the paid, **non-personal** (in other words, it does not involve the business and the customer meeting face to face) communication of information about a product or service through various **media**.

The main functions of advertising are to **remind** consumers about a familiar brand, to **inform** them about the features of a product and to **persuade** them to buy the business's product.

Functions/Types of Advertising

1. **Reminder advertising:** This lets consumers know that a well-known brand is still around and helps to keep the product's name in the consumer's mind. It tends to be used in the maturity and decline stage of the product's life cycle.

> Coca-Cola uses reminder advertising. The Chief Marketing Officer of the company said: "We want to help remind people why they love the product as much as they love the brand."

2. **Informative advertising:** These ads give factual information to consumers about the product. The aim is to make them aware of the brand and what it can offer them.

> An ad for an online shop includes the line, "Sale starts on 2 January at 10.00 a.m."

3. **Persuasive advertising**: This aims to convince consumers that they must have the product, that they cannot live without it as it is essential to their life and their happiness.
4. **Generic advertising**: This advertises the product of an entire industry rather than one firm's product.

> Examples of generic advertising include "Drink Milk" or "Buy Irish" campaigns.

5. **Comparative advertising:** This is where a business advertises its product by showing how well it measures up to the competitions' offering. It aims is to show that its product is much better than its competitors'.

> Many supermarkets use competitive advertising. They show how much cheaper products are in their store compared to their competitors.

Advertising Media

Advertising media are the different places where a business can place an ad. The main advertising media include the following:

Advertising Medium 1: Internet

The internet is a good advertising medium because:

- The internet allows a business's ads to be seen by a global audience which may help it to increase sales by exporting.
- It is cost-effective to advertise on the internet. The business usually only pays for every person who clicks on its ad.
- The business can use social media marketing. Platforms such as TikTok, Facebook, Snapchat, Twitter and online blogs make it easy for the business to speak directly to consumers and for them to exchange information with the business. It helps the business form a real connection with its customers.
- The business can reach its target market by advertising on websites that it knows its target market uses.

> Many Irish universities advertise on Snapchat because they know that a very high proportion of Leaving Certificate students use Snapchat regularly.

- The business can use pictures, sound and movement to appeal to consumers' senses (for example, ads for fabric conditioners and scented candles do this to get "smell" across to consumers).

The problems with internet advertising are:

- The business's advertising material (logos, pictures and trademarks) can easily be copied electronically by others, even though this is illegal.
- Many people ignore internet ads – they use pop-up blockers and software to stop spam emails.

Advertising Medium 2: Television

TV is a good advertising medium because:

- Consumers can see how well the business's product works right in front of their eyes. TV allows businesses to use a common advertising tactic called the "reveal" or the "before and after". Many washing powder ads do this. They show the dirty clothes and then "reveal" how clean they are after being washed in the business's product.
- TV is a very widely used medium in Ireland. The business will reach a lot of people all over the country.
- The business can reach its target market by advertising during programmes or on channels that it knows its market watches.
- The business can use pictures, sound and movement to appeal to consumers' senses (for example, ads for fabric conditioners and scented candles do this to get "smell" across to consumers).

The problems with TV advertising are:

- It costs a lot of money to advertise on TV and therefore it is out for most businesses.
- Many people no longer watch TV ads – they prerecord programmes and fast-forward through ads or they switch channels as soon as the ads come on.

Advertising Medium 3: Radio

Radio is a good advertising medium because:

- Radio is a very popular medium in Ireland. The business will reach a lot of people all over the country if it advertises on national radio and in its own area if it advertises locally.
- It costs a lot less than TV advertising and, therefore, is more practical for most businesses.
- The business can reach local people by advertising on local radio stations.
- The business can reach its target market by advertising on radio stations that it knows its target market listens to. For example, Spin 1038 is the top radio station in Dublin among 15–34-year-olds, so any business that targets this market can reach them by advertising on Spin.

One of the problems with radio advertising is that the business has to rely solely on one thing – sound – to get its message across.

Advertising Medium 4: Newspapers

Newspapers are a good advertising medium because:

- They are good for providing detailed information to consumers about the business's product. The business can include a lot of written information that consumers can read and re-read.
- Newspaper ads cost a lot less than TV advertising.
- The business can reach its target market by advertising in newspapers that it knows its target market reads.

> The *Irish Times* has the highest daily readership among professional and business people, so businesses targeting this group can reach them by advertising in the *Irish Times*.

- The business can reach local people by advertising in local newspapers.

The problems with newspaper advertising are:

- The quality of pictures displayed in newspapers ads is not as good as on TV.
- The ad will be seen for only one day, if the paper is a daily one.

Advertising Medium 5: Magazines

Magazines are a good advertising medium because:

- They are good for providing detailed information to consumers about the business's product. The business can include a lot of written information that consumers can read and re-read.
- Pictures of the business's products can be displayed in colour and in much better quality than a newspaper ad.

> Many make-up companies use glossy full-page colour ads in fashion magazines such as *Vogue* and *Cosmopolitan* to show how well their make-up looks on people.

- They have a longer life than newspapers because they are passed around among friends and are usually on sale for a whole week. This means that they can be seen by a lot of people for a long time.
- They cost a lot less than TV advertising.
- The business can reach its target market by advertising in magazines that it knows its target market reads.

> A business selling tropical fish can advertise in *Practical Fishkeeping*.

Advertising Medium 6: Billboards

A billboard is a large poster displaying an advertisement. Billboards are normally situated on busy roads in an eye-catching position where lots of people will see them. They are a good advertising medium because:

- They cost a lot less than TV advertising.
- They have a longer life than most other media. The business's ad is generally left on display for a lot longer than any of the other media, so a lot more people may see it.
- The business can reach a local target market by placing different posters in different parts of the country.
- Unlike most other media, each billboard usually contains only one ad. Therefore, with billboards, the business is not competing with other businesses for the attention of the consumer.

The problems with billboard advertising are:

- The business cannot give detailed information in the ad.
- Apart from geographical segments, it is hard for a business to reach its target market precisely because it is impossible to predict who will see the billboard.

Advertising Medium 7: Direct Mail

Direct mail involves posting advertising material directly to consumers' homes. Direct mail is a good advertising medium because:

- The business can personalise the ad using each consumer's name and address, making them more likely to pay attention to it.
- The business can reach its target market effectively by sending letters only to those who it knows are interested in its products.

> Tesco has a "Baby Club" for parents of babies and toddlers. Members receive extra Clubcard points and offers. Tesco can then send these members the adverts for new Tesco baby products because it *knows* they will be interested in them.

- Unlike most other media, direct mail contains only one ad. Therefore, with direct mail, the business is not competing with other businesses for the attention of the consumer.

The problems with direct mail advertising are:

- Direct mail is an expensive way to advertise (printing and postage costs).
- Many consumers ignore direct mail adverts which they consider to be "junk mail".

Selecting an Appropriate Advertising Medium

The business must choose the correct advertising medium for its product and target market. When deciding which medium to use, a business will consider the following factors:

Target market	A business should advertise using media that are most likely to be seen by its target market. In this way, its ads will reach the largest amount of potential customers. Toy manufacturers advertise on TV during children's programmes and on children's channels such as Nickelodeon, when children are most likely to be watching.
Nature of the product	The type of product the business is selling determines which advertising medium is most suitable. If the product needs to be seen working, the business must use a visual method, such as TV advertising. Most washing powders and cleaning products are advertised on TV so that consumers can see for themselves how well they clean.
Message	The message that the business wants to get across to consumers can also determine the best medium to use. If the business wishes to convey detailed, technical information about a product, it is best to use a written medium such as a newspaper, so that people can read and re-read the ad in order to understand it. Although many car companies advertise on TV, they also advertise in newspapers. The newspaper ads contain all the technical details about the car such as fuel efficiency, engine size and so on.
Cost	The business's choice of advertising is determined by how much money it has to spend. Different media cost different amounts. It is very expensive to advertise on TV, so this is out for many businesses. Advertising on local media (local papers or local radio) tends to be cheaper than advertising on national media. Therefore, a business that operates only locally (such as a hairdresser, butcher or newsagent) should advertise only on local media. A business should use the most effective advertising media that it can afford.

Advertising Standards Authority for Ireland

An organisation called the Advertising Standards Authority for Ireland (ASAI) keeps an eye on the advertising industry to ensure that consumers are protected. The ASAI is an organisation set up by people who work in the advertising industry. Its job is to **regulate** the advertising industry in Ireland. This means that it tries to protect consumers from false, misleading and offensive advertisements. It is a voluntary organisation. It has no legal powers, so it cannot force any advertiser to do anything.

Here are some of the statements in the ASAI code:

- Marketing communications should be legal, decent, honest and truthful.
- Marketing communications should be prepared with a sense of responsibility to consumers and to society.
- Marketing communications should respect the principles of fair competition generally accepted in business.

Any member of the public can complain to the ASAI in writing. It will investigate the complaint and if it agrees with it, it will **ask** the advertiser to take it down or change it. Generally, all advertisers obey the ASAI.

Promotion 2: Sales Promotion

Sales promotions are incentives or short-term gimmicks that a business offers consumers. The incentives tend to be available only for a limited period.

The aim of sales promotions is to offer customers added value so that they are motivated to buy more of the product and to buy it sooner than they normally might. A number of different techniques can be used:

Loyalty Cards

The business offers customers **points** with every purchase they make in the store. When the customer has enough points, she can use them to pay for some items or trade them in for a money-off voucher to use in that store.

The idea is that consumers will spend more to get more points. It also motivates them to choose that business in preference to all others because they will not be able to use their loyalty card if they shop in other businesses.

Examples of loyalty cards include the Dunnes Stores VALUEclub card, Boots Advantage Card and Tesco Clubcard.

Many coffee shops offer loyalty cards – when a customer buys a certain number of coffees, his next coffee is free.

Free Gifts

The business offers customers a gift with every purchase. The gift must be an attractive one that consumers will want.

McDonald's offer a free toy or book with every "Happy Meal" purchased.

Money-off Vouchers

The business gives consumers a **coupon** entitling them to a certain discount (for example, 50c off their next purchase) when they buy the business's product. The voucher may be attached to the product, included in newspapers ads or mailed to the consumers.

Money-off vouchers encourage price-conscious consumers who like a bargain to buy the product. They can also encourage existing customers who regularly buy the product to buy even more of it.

Tesco and Dunnes Stores send money-off vouchers to their customers.

Competitions

The business offers consumers the chance to win a **prize** if they buy the product. The prize on offer is so attractive that is creates a "buzz" and a lot of attention for the product and motivates many people to purchase it.

Many businesses run competitions on social media. They offer a prize to any customer who likes and shares a post from the business. This helps the business to get its message across to lots of people very quickly and for a relatively low cost.

Free Samples

The business offers customers a **free trial** of its product. A free trial removes the risk and fear consumers may have about spending money to purchase the product. It encourages them to try it and hopefully like it so much that they are motivated to buy it in the future. Free samples are a very effective way to launch a new product.

Many food companies give out free samples at stands in supermarkets.

Many cosmetic companies give free samples of *another* product when you buy something from them. For example, if you buy a shower gel in Molton Brown, they may give you a free sample of a shampoo. They do so in the hope that the next time you shop there, you will buy shower gel *and* shampoo.

Merchandising

Merchandising means that the business **displays** its products and lays out its store in an attractive and eye-catching way. It aims to attract customers' attention and get them to buy products they had not intended buying (impulse buying).

Many shops put basics such as bread and milk at the back of the shop. Customers who want them have to walk through the shop, past lots of other tempting products, which they may pick up on their way to and from the bread and milk.

Many supermarkets display sweets at the checkouts. People queuing at the till have little else to do but look at the sweets and may be tempted to buy them as a result.

Promotion 3: Public Relations

Public Relations (PR) refers to the concerted efforts of a business to create and maintain a **positive image** of the business in the minds of consumers and to build a good relationship with them by obtaining favourable publicity.

A good corporate image is vital for a business because consumers are unlikely to buy from businesses that have a bad reputation or that have suffered negative publicity.

This is such an important area that many businesses employ a **Public Relations Officer** (PRO) to handle their PR.

Functions/Role of Public Relations

The business (through its PRO) uses Public Relations for a number of reasons:

1. **Attracting publicity**: The business organises a **PR "stunt"** to get some publicity with the aim of getting the stunt into the newspapers and on TV. Many customers will see the stunt and thus become aware of the product.

> An example of a stunt is Red Bull sponsored skydiver Felix Baumgartner's record-breaking freefall jump from the stratosphere, 39 kilometres above the earth, in 2012. It provided Red Bull with massive global exposure, achieving thousands of followers on various social media platforms and receiving mainstream media coverage internationally, making the front pages of numerous leading newspapers. Red Bull saw a 7% sales increase in the first six months following the jump.

2. **Targeting certain customers**: Businesses can **sponsor** events and causes that they know will appeal to their target market. This helps to shape buying attitudes and generate a positive reaction.

> Coca-Cola, for example, is always looking to generate a positive influence of their products in the minds of their consumers and as such regularly support events they feel can influence consumer opinions.
>
> In the past, it sponsored the Dublin Bikes scheme to associate the brand with a healthy lifestyle. It continues to sponsor the bikes in Cork, Galway and Limerick.

3. **Building an image that reflects well on the company**: Businesses may engage in public service activities so that consumers will admire their efforts and buy more products from them.

> McDonald's has set up the Ronald McDonald Children's Charities. It donates money to the Children's Health Ireland Hospital at Crumlin in Dublin. Many parents are impressed with this and may choose to bring their children to McDonald's in preference to other fast-food restaurants as a result.

4. **Defending products that have encountered bad publicity**: A business can use PR to **defend itself** against a "publicity crisis", such as an industrial accident, a product recall, or allegations of criminal activities. In today's 24-hour news cycle, bad publicity comes fast and spreads even faster. A well-prepared PR professional will already have a crisis communication plan in place, including ready-made press releases, to respond quickly to a variety of potential crises. The business uses PR to defend itself from bad publicity by putting *its* side of the story across to the public.

> In 2009, two Domino's Pizza employees filmed a prank video in the kitchen of the restaurant where they worked, in which they stuffed cheese up their noses and waved salami under their bottoms. They uploaded the video onto YouTube and it went viral, achieving well over a million views. Domino's used PR to control the damage to the business. Its CEO posted a response video saying that the restaurant the video had been filmed in had been sanitised from top to bottom and that the employees in question were sacked and legal proceedings were brought against them.

Techniques Used in PR

We have seen that Public Relations has many benefits for a business. We now look at how a business generates some good PR for itself. There are a number of techniques that can be used.

1. **Sponsorship**: Sponsorship involves the **financial support of an event** by a business, in order to achieve certain business goals such as receiving recognition or increasing brand awareness. People who have a positive experience at the event will have a positive view of the brand that sponsored it.

> Vodafone sponsors the Irish Rugby Football Union (IRFU). As two thirds of Irish people identify as rugby fans, supporting the IRFU allows Vodafone to reach a significant chunk of the population.
>
> Airbnb sponsored several Olympic Games to reach a global audience and to promote Airbnb to new customers around the world.

2. **Public service activities**: A business can engage in activities that help the local community, so that consumers feel that it cares about them and this makes them like it more.

> The Tesco Community Fund supports local good causes in communities throughout Ireland. Each Tesco store has its own Community Fund and donates up to €1,000 between three local projects every eight weeks. This benefits Tesco because it helps the business to influence consumer opinions positively towards it. Local people think better of the business because it is seen to be helping their area and when people like a business, they buy more from it.

3. **Social media influencers**: This involves partnering with social media influencers to generate loyal brand following on social media platforms such as Instagram and TikTok. Social media influencers carry a lot of credibility. An influencer who has a large fanbase and loyal followers who value the content she's creating can help a business to reach a wider audience and to earn credibility with her fanbase by **endorsing** or mentioning the business's brand.

> Every month, the fashion retailer Boohoo sends free clothes to fashion bloggers and influencers around Europe. These influencers then share their "hauls" with their followers, usually accompanied with a discount code for Boohoo, to motivate them to purchase from the business.

4. **News conferences and press releases**: The business can invite the media in to hear it make a newsworthy **announcement** such as the creation of new jobs or the launch of a new product range. The media may carry this good news story and so the business gets its name into the newspapers and onto the TV news for free.
5. **Events**: The business can hold an occasion to attract PR. Examples include roadshows, exhibitions and open days.

> The luxury shoe brand Christian Louboutin does not advertise. Instead, it holds exclusive invitation-only events where the designer himself meets with customers in Louboutin stores around the world. This attracts a lot of publicity for the company and reinforces its luxury, premium and exclusive image.

Promotion 4: Personal Selling

Personal selling involves the business's salespeople meeting with consumers **face-to-face** to give them personalised advice specific to their needs and to build a relationship with them so as to get them to buy the product.

The business relies on the salesperson's knowledge and expertise to convince the consumer to purchase the product. Most computer stores rely on personal selling to make sales because people are not so knowledgeable about the product. It is also used a lot in cosmetic counters in department stores, where trained beauticians are on hand to offer expert advice and recommend suitable products to consumers.

Sales people often "upsell". This means that they try to convince the consumer to buy more products. A very famous example of upselling is that seen in McDonald's – *Do you want fries with that?*

Now that we have looked at the four promotion techniques, we will examine how a real business, McDonald's, promotes its business.

Evaluation of McDonald's Promotional Methods

1. **Advertising**
   McDonald's advertises a lot on television. The ads are often humorous.
   Evaluation: I think that this advertising campaign is very effective. By frequently using humour, McDonald's ensures that its advertisements will be watched and listened to by its target market of young adults. Using humour makes the brand fun and helps the company connect with young adults.
2. **Sales promotion**
   McDonald's gives gifts to children when they buy a "Happy Meal". The meal comes in a special carrier box and the gift is contained inside. The gift is usually a toy character from a recent film/TV programme or a book.
   Evaluation: I believe that this is a very effective promotional method. McDonald's target market of children would be highly motivated to go to McDonald's rather than any other fast-food restaurants just to get that gift. Therefore, I believe it is very successful in attracting and retaining many children to the McDonald's brand.
3. **Public Relations (PR)**
   McDonald's sponsors children's charities to attract positive PR. It set up the Ronald McDonald Children's Charities of Ireland Ltd which raises for money for organisations such as the Children's Health Ireland Hospital of Crumlin.
   Evaluation: I think this is a very effective promotional tool. A major target market for McDonald's is children and their parents. When parents see how good McDonald's is to children's charities, they will bring their children to McDonald's restaurant in preference to the competition. This promotion technique has an emotional appeal to them as parents.
4. **Personal selling**
   McDonald's has restaurants all over Ireland. Its employees are trained to upsell to customers. This means that they try to convince the consumer to buy more products. They always ask customers if they wish to purchase another product with their meal.
   Evaluation: In my opinion, the personal selling used by McDonald's is an excellent method of promotion as it encourages customers to purchase more, thereby increasing sales and profits for McDonald's.

Marketing Mix (4Ps) – Place

There is no point having a great product or service if the customer cannot easily get access to it. This is where the place part of the marketing mix is important.

Place is the way that the business distributes its products and services, i.e., where the business sells its products and how it gets them to the consumer.

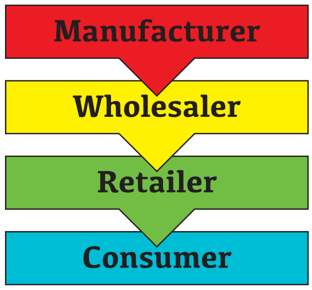
Channels of Distribution

The different options for getting a product to the consumer are called channels of distribution.

> When Krispy Kreme first launched in Ireland, customers could only buy its doughnuts directly from its store in Blanchardstown in Dublin. To increase sales, the company then distributed its doughnuts in Tesco and Circle K stores throughout Ireland as well.

There are a number of channels of distribution, as follows:

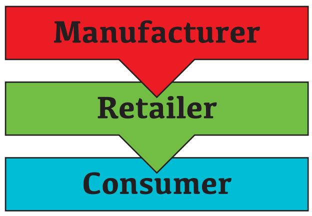
Traditional Channel of Distribution



- The manufacturer makes the products and sells them to a wholesaler in large quantities.
- The wholesaler sells the products in smaller quantities to the retailer (shop). The retailer sells individual products to the consumer.

> An example of this would be where Cadbury sells 1,000 boxes of Dairy Milk bars to Musgraves (wholesalers) for 50c per bar.
>
> A newsagent drives to Musgraves and buys two boxes of Dairy Milk bars at a cost of 85c per bar.
>
> The newsagent sells one bar to the consumer for €1.25.

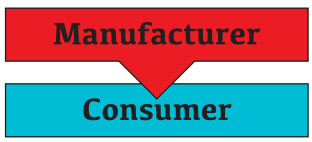
Alternative Channel of Distribution



- In this case, the manufacturer sells directly to the retailer. Manufacturers will normally only do so to large retailers that place a big order.

> An example of this would be where Cadbury's sells 1,000 boxes of Dairy Milk bars directly to Dunnes Stores for 50c per bar.
>
> Dunnes sells one bar to the consumer for 95c.

Direct Channel of Distribution



- The manufacturer sells straight from the factory to the consumer.

> Dell sells its computers to consumers this way through its website.

Wholesaler and Retailer

- A wholesaler is a business that buys products directly from the manufacturer in huge quantities and then sells them on to the retailer in smaller quantities. This is called **breaking bulk**.
- A retailer is a **shop** that sells products to the consumers.

Factors to Consider when Choosing a Channel of Distribution

1. Cost

- The more stages there are in the channel of distribution, the more expensive the product becomes for the consumer because both the wholesaler and retailer add a profit to the price.
- Therefore, to minimise the final cost to the consumer, many businesses sell directly to customers.

> Ryanair stopped using travel agents to sell its tickets. It sells online instead. This helps the company ensure that it can sell its flights to customers for the lowest possible price.
>
> Similarly, large supermarkets such as Dunnes Stores and Tesco buy directly from the manufacturer to ensure they get their stock at the lowest possible price.

2. Nature of the Product

In general, bulky or heavy products are distributed directly to minimise transportation costs.

> The aeroplane manufacturers Boeing and Airbus sell planes directly to airlines as it would cost far too much to fly the plane to a wholesaler and then fly it on to a retailer before selling it to the airline.
>
> Perishable goods, such as fish or fresh flowers, are also sold directly or through a very short channel to ensure that they get to the consumer as quickly as possible and arrive fresh.

3. Target Market

- The customers the product is aimed at will influence the places at which a business wishes to sell its products. The business must choose a channel that ensures the product arrives exactly where its customers expect and desire to find it.
- If their product is low-priced, like a chocolate bar, businesses may use intensive distribution by getting their product into as many shops and outlets as it can.

> To reach as many customers as possible, Cadbury's chocolate is on sale in shops, supermarkets, garages, vending machines, cafes, cinemas, theatres, theme parks and even on board aeroplanes.

- However, if a company is selling a luxurious product, e.g. an expensive perfume, it might want its product to be sold only in high prestige shops – reflecting the exclusivity of the product. A customer might not want to buy an expensive perfume from a discount supermarket, but would like to purchase it from a prestigious department store.

4. Location of Customers

- If the business's customers are all located within one small area, it can use a direct channel of distribution as the distribution costs will be low.

> Domino's Pizza in Drumcondra, Dublin, delivers freshly made pizzas directly from its shop to customers in their homes in Drumcondra.

- If the product is sold to customers in different parts of the world, the business will use a network of wholesalers, retailers and agents to get its product to these geographically scattered customers.

> Coca-Cola enters into agreements with local businesses all over the world and allows them to bottle and distribute Coke under licence.

5. E-commerce

The business can sell its products directly to consumers using its website. Customers can view its products on its website and order them online. The business then posts the products to the customer's home.

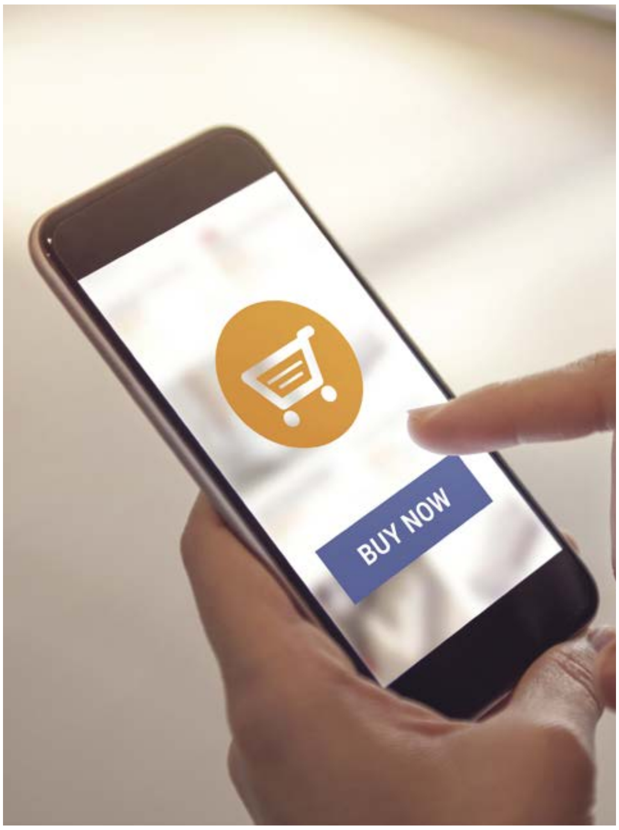
> Dell sells its computers directly to customers in Ireland on www.dell.ie.

6. Payment

- The business must consider the cash flow implications of each channel of distribution. If it chooses to sell to large retailers, they may insist on 30 (or even more) days' credit. This means the business will face a delay in getting paid for its products.
- Small retailers may be more likely to pay cash on delivery which will improve the business's cash flow.

Importance of Distribution

- Distribution directly affects a business's sales. If the product is not available for customers when they go looking for it, it cannot be sold. Most customers will not wait for the product. They will buy only what is available in the store.
- Distribution affects a business's profit margins. The more stages there are in the channel of distribution, the more expensive the product becomes for the consumer because both the wholesaler and retailer add a profit to the price. Customers are not willing to pay over the odds for a product. Therefore, to remain competitive, the business may be forced to cut the price at which it sells to the wholesaler.
- Distribution affects a business's goodwill. If the business has distribution problems and cannot guarantee consistent on-time delivery, customers will grow unhappy with it and its reputation will suffer.



Now that we have looked at all "four Ps" in the marketing mix, we examine the marketing mix of an Apple iPhone.

Evaluation of the Marketing Mix for the Latest Apple iPhone

1. **Product**

   The new iPhone has been extensively redesigned. It incorporates new features that offer better aesthetics and performance for consumers.

   Evaluation: Consumers want well designed products – those that look good and are easy to use and maintain. Apple is successful because it designs its products to look clean, simple and straightforward, while staying high-quality and highly functional.

2. **Price**

   Apple uses a premium pricing strategy. The iPhone is more expensive than competitors' phones.

   Evaluation: This is an excellent pricing strategy because it helps to maintain Apples' high end image. Consumers will pay more for the latest iPhone because they believe the high price is an indication of good quality and because it signals their success and status to other people.

3. **Promotion**

   Apple uses the Public Relations technique of partnering with social media influencers to create "unboxing" videos and sponsored social media posts that show Apple products in daily use.

   Evaluation: By allowing influencers to get their hands on the product before the general public, Apple creates a hype and excitement around the new phone on social media, driving huge product demand prior to the launch of the phone.

4. **Place**

   Apple distributes the iPhone worldwide through its website and other e-commerce websites, including Amazon, and in its Apple stores.

   Evaluation: Selling directly to customers through its own website maximises profits for Apple as all sales proceeds of the iPhone go directly to it and not to intermediaries.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Define "marketing".
2. Explain the term "field research" and give **one** example of field research.
3. Give **three** examples of desk research for a business.
4. Outline **two** benefits of conducting market research.
5. Explain the term "marketing concept".
6. Outline **two** benefits of a marketing plan for a business.
7. Explain the term "market segmentation".
8. Name any **three** products and outline the target market for each one.
9. Explain the term "brand name" and give two examples.
10. Outline **two** benefits of a brand name for a business.
11. The stages in the product life cycle include: Growth, Saturation, Decline, Maturity and Introduction. Write these stages out in the correct order.
12. Indicate by means of a tick (✓) the stage of the product life cycle to which each sentence refers:

	Product Life Cycle Stage			
	Maturity	**Introduction**	**Decline**	**Growth**
The product is first launched on the market.				
Sales of the product decrease.				
Sales of the product increase rapidly.				
Sales of the product reach their peak.				

13. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Packaging
2. Target market
3. Product
4. Survey
5. Marketing plan
6. Marketing mix

Column 2: Explanations
(a) The consumers that the business aims its product at
(b) Product, Price, Promotion, Place
(c) A document setting out a business's marketing goals and the strategies it intends to use to achieve them
(d) Splitting the market for a product into different groups of consumers
(e) The wrapper or container for a product
(f) A bundle of benefits a business sells to consumers
(g) A questionnaire used in market research

1	2	3	4	5	6

14. List **four** methods of promotion.
15. Distinguish between "reminder advertising" and "persuasive advertising". Illustrate with an example of each.
16. List **three** reasons why a business advertises.

17. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Informative advertising
2. Generic advertising
3. Advertising media
4. Comparative advertising
5. Direct mail
6. Billboards

Column 2: Explanations
(a) Large posters displaying advertisements
(b) Reminds consumers about a well-known product so that they do not forget it
(c) Advertising material posted to a person's home
(d) Channels of communication that a business can use to get its message across to consumers
(e) Gives consumers factual information about a product
(f) Advertises an entire industry rather than an individual brand
(g) One business compares itself against another in its ads, to show that it is better

1	2	3	4	5	6

18. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Radio advertising costs less than television advertising.	
B	Advertising in a local paper is usually cheaper than advertising in a national paper.	
C	Billboard advertisements are good for giving consumers lots of detailed information about a product.	
D	Direct mail allows a business to personalise an advertisement for each consumer.	
E	A magazine advertisement is usually seen by people for a longer period than an advertisement in a daily newspaper.	

19. State **two** methods of sales promotion and briefly explain **one** of them.
20. Explain the term "merchandising".
21. Explain the term "Public Relations". Use an example to illustrate your answer.
22. Outline **two** reasons why businesses use Public Relations.
23. In the context of marketing, explain what is meant by "sponsorship" and illustrate your answer with an example.
24. Draft the traditional channel of distribution for a product.

EXAM SECTION 2 – LONG QUESTIONS

1. Distinguish between "desk research" and "field research". Give an example of each to illustrate your answer. **(20 marks)**
2. Explain the term "market research" and outline **three** benefits to a business of market research. **(20 marks)**
3. What is a marketing plan? **(10 marks)**
4. Explain the term "market segmentation" and use an example to illustrate your answer. **(10 marks)**
5. Describe what a brand name is and outline the benefits of a brand name to a business. **(25 marks)**
6. Draw a diagram of the product life cycle. Indicate clearly the stages in the product life cycle on the diagram. **(20 marks)**
7. List the stages in a product's life cycle and explain any **two** of them. **(25 marks)**
8. Outline the factors that a business would take into account when deciding on the price to charge for its products. **(20 marks)**
9. Explain what is meant by a "loss leader". **(10 marks)**
10. Diarmuid owns a barbershop in a busy town in Donegal. Outline **three** methods of advertising that Diarmuid could use to increase sales. **(15 marks)**
11. Many businesses advertise on television. Explain the advantages of television advertising for businesses. **(15 marks)**
12. Pauline runs her own hairdressing business in a small town in Waterford. Describe three sales promotions that Pauline could use to increase sales. **(15 marks)**
13. Define the term "personal selling". **(10 marks)**
14. What does the term "channel of distribution" mean? **(10 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain your understanding of the term "market research".
2. Distinguish between "desk research" and "field research".
3. Explain the term "marketing concept". Illustrate its impact on a business.
4. Define market segmentation. Outline **two** methods of market segmentation.
5. Explain why a business would engage in market segmentation.
6. Distinguish between "market segment" and "niche market".
7. Explain the term "brand name" and provide an example to support your answer.
8. Complete this sentence: Product packaging is used to…
9. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Price skimming
2. Penetration pricing
3. Price discrimination
4. Loss leader
5. Premium pricing

Column 2: Explanations
(a) The business sells a product below cost in the hope of attracting customers.
(b) The business charges a high price for a product when it is first launched, to recoup its development costs as quickly as possible.
(c) The business charges a low price to attract as many customers away from the competition as possible.
(d) The business charges a price exactly equal to the cost of making the product.
(e) The business charges different customers different prices for the same product.
(f) The business consistently charges a very high price for its product to emphasise its quality and to appeal to status-conscious consumers.

1	2	3	4	5

10. Illustrate your understanding of term "advertising media".
11. Outline **two** problems of television as an appropriate advertising medium for a business.
12. What do the letters ASAI stand for? Explain the role of the ASAI in business.
13. Distinguish between the marketing terms (i) promotion and (ii) sales promotion.
14. Define "sales promotion". Outline **two** types of sales promotion a business could use to promote its products.
15. What do the letters PR stand for? Explain the role of PR in business.
16. Complete this sentence: Personal selling involves…
17. Advertising is a type of promotion. List **three** other methods of promotion and explain any one of them.

18. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Reminder advertising
2. Merchandising
3. Wholesaler
4. Retailer
5. Marketing mix

Column 2: Explanations
(a) Dividing the market for a product into groups of buyers with similar tastes
(b) Buys from the wholesaler and sells to the consumer
(c) Four tools that a business can use to increase sales
(d) Keeps a famous brand name prominent in the minds of consumers
(e) Buys from the manufacturer and sells to stores in smaller quantities
(f) Attractive shop displays designed to stimulate impulse buying

1	2	3	4	5

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

ABQ 1

Cronin Creations Ltd

Pauline Cronin is an internationally famous and successful designer of ladies' clothes. She caters to a niche market of wealthy women who want cutting-edge designs with superior tailoring. Her refusal to use animal fur or leather in her clothes has attracted many ethically minded women to her brand. She exports her clothes throughout Europe. Despite critical acclaim, Pauline realises that her niche market is too small to be highly profitable.

A friend who studied marketing in college advised her to cash in on her famous name and launch brand extensions such as a perfume. Pauline carried out market research, which has convinced her that a market exists for a perfume bearing her name. She has spent a lot of time and money trying to develop a perfume made from entirely natural ingredients.

While Pauline believes that her perfume will be unique in that it will not contain chemicals, she knows that as soon as it is successful, the other major perfume manufacturers that she is in competition with will bring out copycat perfumes. However, her friend is more optimistic and told her that the success of the perfume could eventually lead to the launch of a complete cosmetics range. Pauline has approached the top department stores in Europe to see whether they will stock her new perfume. The response so far has been lukewarm.

Describe **three** pricing strategies Pauline should consider when launching the new perfume. **(30 marks)**

ABQ 2

Treacy's Tasty Food Ltd

Sam Treacy owns a fast-food restaurant in the centre of a large town in the north-east, just off the motorway between Dublin and Belfast. When setting up the business, he carried out market research that revealed that a lot of people in the area were interested in eating healthier but because of their busy lifestyles they found it hard to find the time to prepare healthy food.

He is so passionate about healthy food that he allows people a free taste to convince them that healthy food can taste good. The business has done well and the name "Treacy's Tasty Food" is now synonymous with healthy eating. His target market comprises health-conscious young people and parents with small children. Although his menus are more expensive than the competition, many consumers feel that this is a price worth paying for healthy food.

Sales have rocketed since Sam started the "TT Club". Customers are given a card that is stamped every time they buy a burger. They can claim a free burger once they have collected ten stamps. All completed cards are entered into a draw for a holiday. Children who order a "Tots meal" get a free toy. Sam has recently expanded the business to include healthy pizza. He now sells pizza in the restaurant and offers a home-delivery service. He knows though that extensive advertising is required to promote the pizza venture.

Evaluate, from the above information, **four** sales promotion techniques used by Sam. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Illustrate the use of field research in a business of your choice. **(20 marks)**
2. Outline, using an example, the role of the internet in market research. **(10 marks)**
3. Discuss the importance of market research for Irish business. **(25 marks)**
4. Distinguish between the marketing concept and market segmentation. Use examples, where appropriate, to illustrate your answer. **(20 marks)**
5. Differentiate between demographic and geographic market segmentation. Illustrate your answer. **(20 marks)**
6. Explain the opportunities and risks of niche marketing for a business. **(20 marks)**
7. What is a marketing plan? Evaluate the importance of a marketing plan to the success of a business. **(20 marks)**
8. What is a brand name? Evaluate the role that a brand name can have for a business. **(20 marks)**
9. Discuss the methods a business can use to extend the product life cycle of its products. **(25 marks)**
10. Describe the factors to be considered when setting the price for a product. **(20 marks)**
11. Using one example in each case, distinguish between a price skimming strategy and a penetration pricing strategy. **(20 marks)**
12. Describe the main functions of advertising. **(15 marks)**
13. Discuss the factors that a marketing manager must consider when choosing an appropriate advertising medium for the business. Illustrate your answer with relevant examples. **(20 marks)**
14. Describe the various sales promotions that a business can use to promote its products. **(20 marks)**
15. Evaluate the importance of Public Relations for a business. **(25 marks)**

UNIT 5

CHAPTER 17

STARTING A BUSINESS

LEARNING OUTCOMES

In this chapter, we will look at:

- The main decisions involved in setting up a business.
- The different business ownerships available to an entrepreneur.
- The different ways an entrepreneur can make products.
- The different ways an entrepreneur can get money to set up and run a business.
- How to write a business plan.
- Why a business plan is so important.

The first step in becoming an entrepreneur is to think of a good idea for a product or service. We looked at this in Chapters 14 to 16. The next step is to set up a business to make money from that idea. This chapter examines the process of setting up a business. It looks at the three big choices the entrepreneur must make when setting up her business: ownership options, production options and finance options.

Ownership Options

The first choice facing an entrepreneur is deciding which type of business structure is best to ensure the business runs effectively. There are three options: sole trader, partnership and private limited company.

Sole Trader

A sole trader is a business set up, owned and run by one person **on her own**. It suits people setting up a small business who want to keep it small and own and control it themselves. Examples of sole traders include farmers, pubs, chemists, hairdressers and newsagents.

The advantages of a sole tradership for an entrepreneur are as follows:

1. A sole trader is an **easy** business to set up. There are few legal registration requirements to satisfy before setting up. No government permission is required to set up in business as a sole trader.
2. Because the entrepreneur owns the business alone, **all the profits** go to her. This provides a great motivation to work hard in the business. The entrepreneur is directly rewarded for all her effort.
3. It is a **confidential** type of business. The business's financial accounts (profit and loss account and balance sheet) do not have to be published (made public). Therefore, no one else can get access to the sole trader's business secrets.
4. The sole trader can make decisions **quickly** because no time is wasted having discussions with others. This will help her to take advantage of opportunities and to respond to market changes swiftly.

The disadvantages of a sole tradership for an entrepreneur are as follows:

1. The sole trader has **unlimited liability**.

   This means that if the business goes bankrupt and owes a lot of money, the sole trader herself is totally personally responsible for paying back all the business's loans.

   If, after selling the business to repay the loans, debts are still owed, she will have to sell off her own personal assets, such as her house, to pay back these loans.

   In other words, setting up as a sole trader involves a huge risk. A sole trader risks losing everything she owns if the business fails – her business, her home and anything else she owns.
2. It is difficult and stressful to run a business alone. The sole trader has to rely on one person – herself – to know everything that is needed to run a business. There is no one to help her with major business problems and decisions.
3. It is difficult for a sole trader alone to raise all the **money** needed to set up and run the business. Sole traders may find it difficult to get loans from banks because sole traders are the business organisation most likely to go bankrupt.
4. In law the business is not a separate legal entity. If any legal issues arise, it will be the sole trader herself who is personally sued and not the business.
5. There is no continuity of existence. This means that when the sole trader dies, the business ends.

Partnership

To overcome the disadvantages of being in business alone, the entrepreneur could consider setting up in business with other people in a partnership.

A partnership is a business set up, owned and managed by between two and 20 owners, called partners. They set up a business **together** and combine their resources and talents to make a profit.

Examples of partnerships include many professions, such as solicitors, doctors and accountants – e.g. KPMG and PricewaterhouseCoopers.

The advantages of setting up in business as a partnership for an entrepreneur are as follows:

1. A partnership is a **simple** business to set up. There are few legal registration requirements to satisfy before setting up. No government permission is required to set up in business as a partnership.

   However, it is advisable for partners to draw up a contract before setting up the business. Such a contract is called a **deed of partnership**. It is used in the event of any disagreements between the partners. It sets out in advance issues such as:

   - How the profits are to be shared.
   - What each partner is expected to do in the running of the business.
   - What happens if the business closes down.
   - What salary each partner is to be paid for working in the business.
   - Whether partners can take money from the business and, if so, how much.

   Then, if one partner breaks the terms of the deed of partnership, the others can sue him for breach of contract.
2. Because more people are setting up the business, **more capital** is available to pay for the costs of setting up and growing the business. Each partner contributes some capital, so the business can raise more money than a sole trader when setting up.
3. Each of the partners may have different skills, making it easier to run the business as they can **divide** all the work up between them. Also, because there are more people to consult with and discuss problems with, the partnership should make better decisions than a business run as a sole trader.
4. It is a **confidential** type of business. The business's financial accounts (profit and loss account and balance sheet) do not have to be published (made public). Therefore, no one else can get access to the partnership's business secrets.

The disadvantages of setting up in business as a partnership for an entrepreneur are as follows:

1. The partners have **unlimited liability**. This means that if the business goes bankrupt and owes a lot of money, the partners are **jointly and severally liable** for paying back all the business's loans.

   If, after selling the business to repay the loans, debts are still owed, the partners will have to sell off their own personal assets, such as their houses, to pay back their share of the loans. But if one partner cannot pay back her share of the loans, the other partners have to pay it for her.
2. Decision-making is **slower** because all the partners have to be consulted. This may make the business less flexible and less responsive to change. The partners may spend so much time debating new opportunities that by the time they all agree, someone else may have exploited the opportunity.
3. In law the business is not a separate legal entity. If any legal issues arise, each partner is personally sued and not the business.

4. There is no "continuity of existence". If one of the partners dies or resigns, the entire partnership must be dissolved.
5. Profits have to be **shared** between the partners according to their agreed profit-sharing ratio, which is not necessarily a ratio based on how much effort they put in. This might be unfair to one partner who does most of the work.

Private Limited Company

We have seen that a major disadvantage for an entrepreneur of setting up in business as a sole trader or partnership is unlimited liability. To overcome this difficulty, many entrepreneurs establish their business as a private limited company.

- A private limited company is a business owned by between one and 149 owners, called shareholders.
- These shareholders have limited liability, which means their personal assets cannot be taken to repay the company's debts.
- The company is run by directors who are voted in by the shareholders to run the business on their behalf.
- There are two types of private limited company: **a company limited by shares (Ltd)** and a **designated activity company (DAC)**. We will look at these in detail in Chapter 19.
- In Irish law the company has a separate legal existence from its owners. This means it is the company itself that owns property, and that it is the company that may sue and be sued in respect of the business of the company.
- The company cannot sell its shares to the public.

Examples of private limited companies include Eason and Son Ltd, River Island (River Island Clothing Company Ireland Ltd) and Zara (ZA Clothing Ireland Ltd).

The advantages of setting up a private limited company for an entrepreneur are as follows:

1. The shareholders (owners) in the company have **limited liability**.

   This means that if the business goes bankrupt and owes a lot of money, the shareholders are not personally liable for repaying the business's debts. If, after selling the business to repay the loans, debts are still owed, the shareholders do not have to sell their own personal assets, such as their houses, to pay back their share of the loans. All they can lose is the capital they invested in the business.
2. Because more people (up to 149) are putting money into the business, it is easier to raise **capital** in a private limited company. Each shareholder invests some money in the business. The business can raise more money to set up and grow than a sole trader could.
3. A private limited company is a good choice when setting up a business because a number of people, called directors, are involved in running it. The workload can be split between the various directors, each of whom may have different skills and experience. The directors can **brainstorm** ideas for the business. This inventive, creative process will yield better ideas and decisions when compared to a person operating on her own.
4. Private limited companies pay **less tax** on their profits than either sole traders or partnerships. The rate of corporation tax companies pay on their annual business profits is much less than the rate of self-assessment income tax that sole traders and partners have to pay. Therefore, a private limited company will have more profits left after tax to use for business expansion.
5. A private limited company has **continuity** of existence. This means that if the owners of the company die, it does not cease to exist. Once the company is legally established, it can continue to operate forever provided it does not go bankrupt.

The disadvantages of setting up a private limited company for an entrepreneur are as follows:

1. It is **complicated** to set up a private limited company. The shareholders must first apply for permission to set up the company from the Companies Registration Office. They cannot begin trading until they receive a certificate of incorporation from the Registrar, granting them permission to do so. Furthermore, they must also pay a fee for this service.
2. Under Irish law the company must **publish** its financial accounts (profit and loss account and balance sheet) each year, for all to see. It must make a full public disclosure of all its financial dealings. This means that a private limited company is not a very confidential type of business. Customers, competitors, employees and anyone else who is interested can see the company's financial position and may use this information to their advantage.
3. There are a lot of **legal requirements** to obey. Every year the company must send an annual return to the Companies Registration Office. And every year the company must get its financial accounts audited (verified by an independent accountant). As well as the time and effort that goes into these, both also cost the company a lot of money.
4. Profits have to be **shared** between the shareholders according to their agreed profit-sharing ratio, which is not necessarily a ratio based on how much effort they put in.

Production Options

The entrepreneur has to decide how to make the products that she intends selling. Again, there are three basic options. These are called job, batch and mass production.

Job Production

Job production involves making each product **one at a time**. Each product is individual, unique and **custom-made** for the buyer. A customer comes in and sets out exactly what she wants. Then the business makes that product to the exact specifications of the customer.

Examples of products made by job production include a dressmaker making a handmade wedding dress. The dressmaker must measure the customer and make a dress that fits her exactly. The customer will specify exactly what she wants the dress to look like, and the dressmaker will make exactly what the customer orders.

Another example is O'Brien's Sandwich Bars, where they will make any sandwich a customer asks for right there in front of the customer.

A third example is an optician, who makes a unique set of lenses for each patient's glasses because each patient has a unique eye condition.

Because it is not producing large amounts of the same product, the business does not enjoy many economies of scale (see later in this chapter).

Generally, job production uses very **skilled** workers to make the products. This increases the wages bill for the business, as highly skilled workers command high wages. Making a wedding dress by hand to fit a customer perfectly is a very skilful job. Making glasses that help a patient to see perfectly also requires a great deal of skill.

Job production usually uses machines that are **flexible** and capable of doing many jobs. This is because each customer will ask for something different and the machines must be capable of doing any job needed.

Because job production uses highly skilled labour and each product has to be made individually for the customer, products made this way tend to be **expensive**.

Batch Production

Batch production involves making a large amount of a product, in groups, all in one go (production run). The product is the **same** for all customers.

Because it is the same product for all customers, it is made in advance and kept in stock to be ready for the customer when she comes into the shop looking for it. The business must therefore implement a stock-control system.

Generally, batch production employs workers who are not as highly skilled as those involved in job production. In batch production the workers are not creating one-off unique products from scratch.

Batch production is capital-intensive. This means it depends more on **machines** than on workers. These machines are flexible and capable of doing many jobs. A printing business may be used to print a batch of large colour atlases in the morning, pocket-sized notebooks in the afternoon and Leaving Cert exam papers in the evening. Therefore, it needs a machine that can do all three jobs.

It is cheaper to make each product using batch production. This is due to **economies of scale**. This means that the more products a business makes at the same time, the lower the cost of making **each individual product** becomes. For example, if it costs €100 in electricity to use the oven in a bakery and the baker puts in only ten cakes, the cost of electricity per cake is €10. But if the baker puts in 100 cakes at the same time, the cost per cake is €1. If 1,000 cakes are made at the same time, the cost per cake is only 10 cent!

Therefore, products that are batch produced tend to be **less expensive** than those that are job produced.

Mass (Flow) Production

Mass production (also called "flow production") involves making a product continuously, 24 hours a day, 7 days a week, 365 days a year. Therefore, mass production is suitable only for products that are in continuous demand by consumers.

Examples of mass-produced products include toilet paper and KitKats.

Once you use a mass-produced product, you will probably want or need to replace it. So you keep buying it time and time again. This is not true for books. Once you have bought a certain book, you do not keep buying that *same* book for the rest of your life. That is why books are batch produced.

Because a mass-produced product is the same for all customers, it is made in advance and kept in stock to be ready for the customer when she comes into the shop looking for it. The business must therefore implement a stock-control system.

Mass production is capital-intensive. This means it depends more on **machines** than on workers. These machines are very specialised. This means that they normally do just one job. In the example of Nestlé, it makes sense to have a machine that makes only KitKats as it is used every single day.

Generally, mass production uses **unskilled** workers in an assembly line to make the products.

Because of huge economies of scale (as so many products are made), mass production tends to have the **lowest** costs of all three production options, and therefore prices are lower under mass production than under job or batch production.

Finance Options

The entrepreneur has to decide where she will get the money from (called **sources of finance**) to set up and run the business. Sources of finance fall into three major categories. (We covered this topic in Chapter 13, so make sure to revise it!)

SHORT TERM	Interest is tax-deductible	No security needed	No giving away shares
Bank overdraft	✓	✓	✓
Accrued expenses	✓	✓	✓
Trade credit	✓	✓	✓

MEDIUM TERM	Interest is tax-deductible	No security needed	No giving away shares
Hire purchase	✓	✓	✓
Leasing	✓	✓	✓
Medium-term loan	✓	✗ Security **IS** needed	✓

LONG TERM	Interest is tax-deductible	No security needed	No giving away shares
Retained earnings	Not applicable	✓	✓
Debenture	✓	✗ Security **IS** needed	✓
Equity capital	✗ Dividends paid are **NOT** tax-deductible	✓	✗ Owners **MUST** give away part of the business

Business Plan

A business plan is a written document a business person uses when starting a major business venture. In it she sets out the objectives she intends her business to achieve and the strategies she proposes to use to achieve them. It sets out details about the entrepreneur setting up the business, her business idea and especially her unique selling point (USP). It also describes how the entrepreneur is going to make and sell the product and how she intends to finance the business.

A typical business plan contains the following details:

1. **Description of Business**

   The entrepreneur sets out details of her business proposition. She describes the people starting the business, its products and its long-term objectives.

2. **Market Analysis**

   The entrepreneur must show that there is a viable market for her product. She must also show how she intends to beat the competition to win customers. The entrepreneur describes her target market, market trends, the competition and her competitive advantage over them.

3. **Marketing Plan**

   The entrepreneur describes her marketing strategy – i.e. how she intends to arouse customers' interest in the product and convince them to buy it. She will set out details of the "4Ps" – the product she intends to sell, the price she intends to charge, the promotion methods she will use and the places in which she will sell her product.

4. **Production Plan**

   The entrepreneur describes how she will make the product. She describes the manufacturing process she will use in terms of job, batch or mass production.

   She also details the equipment that will be used and how she will make sure that the products are made to the best quality.

5. **Finance Plan**

   The entrepreneur describes how much it will cost to finance the business, how much money she has and how much she still needs. She sets out any collateral she has for the loan. She also sets out a projected profit and loss account, a balance sheet and a cash flow forecast for the next few years.

Here is an example of a business plan. The question is taken from the 2006 Leaving Cert Higher Level paper.

Paula and Thomas have recently returned to Ireland, having worked with transnational companies for ten years. They wish to set up in business together to manufacture a range of new organic breakfast cereals. Paula has particular expertise in production and finance and Thomas in marketing and Human Resources.

Draft a business plan for the proposed new business under five main headings, outlining the contents under each heading. (40 marks)

Business Plan for Paula and Thomas

1. **Description of Business**

   We are Paula and Thomas. We have a lot of international experience in business, having worked abroad for ten years for transnational companies. Paula has particular expertise in production and finance, while Thomas's areas of expertise are marketing and Human Resources.

   We are setting up a business that will make a range of new organic breakfast cereals. Our aim is to become the biggest organic cereal producer in Ireland and to export abroad.

2. **Market Analysis**

   We have conducted market research that shows that the market for breakfast cereals in Ireland is very large and growing. A big market trend in the food industry is the increasing interest in organic products. We therefore believe that our target market of health-conscious consumers is large enough for our business to be very profitable. Our unique selling point is that, unlike most cereal manufacturers, our cereals will be made from entirely organic ingredients.

3. **Marketing Plan**

   Product: We will use the brand name "Organically Irish" to give customers the message that our cereals are made here in Ireland and are totally natural. We will use attractive packaging featuring well-known sports stars to attract customers to the product in stores.

   Price: We will use a price-penetration strategy – i.e. we will charge a low price for our cereals and undercut our competition so as to win as many customers as possible away from the competition.

   Promotion: To arouse consumers' interest in our range of organic cereals, we will advertise in sports and health magazines, which our target market is likely to read.

   Place: We will negotiate with all the leading supermarkets and health stores to stock our range of cereals so that they will be readily available for consumers throughout Ireland.

4. **Production Plan**

   Our range of cereals will be manufactured in our factory in Ireland from organic ingredients sourced in Ireland.
   We will use batch production to make a variety of flavours to meet consumer demand. We will use CAM (computer-aided manufacturing) to run the machines to make enough cereals for consumers. We will apply for ISO 9000 certification to make sure that the quality of our production process and of our cereals is of the highest standard.

5. **Finance Plan**

   The costs of setting up the business are as follows:

Factory	€1,000,000
Equipment	€ 100,000
Total	€1,100,000

   We plan to finance €200,000 of our needs from our personal savings and are seeking a loan for the remaining €900,000. The factory will be the collateral for the loan.

   Our projected profits are as follows:

	2025	2026	2027
Income	€200,000	€300,000	€400,0000
Expenditure	(€180,000)	(€250,000)	(€310,000)
Net profit	€20,000	€50,000	€90,000

Signed: Paula ______ Paula   Thomas ______ Thomas

Date: 17 June 2025

Importance of a Business Plan

A business plan is **essential** for all entrepreneurs. The main reasons why every entrepreneur should draft a business plan are as follows:

1. A well-drawn up business plan is used to convince investors that the business idea and the entrepreneur represent a sound investment proposal. It includes a projected profit and loss account that will show investors that the business plans to generate sufficient profits to repay the finance and provide them with a decent return. It is therefore a major tool for persuading investors to give the entrepreneur the much-needed **finance** to start, run and expand her business.
2. A business plan sets out targets for the business to achieve in the future. The business can measure its actual performance against these targets to see if it is on course to succeed. If it is not achieving them, it can immediately take the necessary corrective action to get back on target. A business plan will therefore help an entrepreneur to **control** her progress, because if her business is not reaching the standards she set for it, she can take action to fix the problems.
3. In her business plan, the entrepreneur sets out the objectives she wants her business to achieve and devises strategies by which these will be achieved. Thus, it sets out a series of well-thought-out steps to **guide the business to success**. It helps the entrepreneur get her business to exactly the place she wants it to be.
4. A business plan helps the entrepreneur to anticipate problems that she may encounter when making and selling her product and financing the venture. She can then prepare **solutions** to these problems in advance of them occurring. Solving problems in advance will help the entrepreneur to avoid business failure.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "sole trader" and give **two** examples.
2. Explain the term "unlimited liability".
3. As a type of business organisation, explain **three** features of a partnership.
4. Outline **two** benefits of a private limited company as a type of business organisation.
5. Explain the term "limited liability".
6. Explain the term "job production" and illustrate your answer with an example of a product produced using job production.
7. What does "batch production" mean?
8. Explain the term "mass production" and give an example of a product that is mass produced.
9. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Job production is usually used to make inexpensive products.	
B	The assembly line is often a feature of mass production.	
C	Newspapers are mass produced.	
D	Highly skilled craftsmanship is a feature of mass production.	
E	Mass production is best suited to products that have little consumer demand.	

10. List **four** headings in a business plan.

EXAM SECTION 2 – LONG QUESTIONS

1. Eileen wishes to set up her own business.
   Outline **two** risks and two rewards for Eileen if she sets up as a sole trader. **(20 marks)**
2. Caitlin and Amy are thinking of setting up a business together as a partnership.
   Outline **three** disadvantages of a partnership. **(15 marks)**
3. Outline **two** similarities between a sole trader and a partnership. **(10 marks)**
4. Outline **three** features of a private limited company. **(15 marks)**
5. Explain **three** disadvantages of a private limited company as a type of business organisation. **(15 marks)**
6. Outline **three** features of job production. **(15 marks)**
7. Distinguish between "batch production" and "mass production". **(20 marks)**
8. Describe three benefits for an entrepreneur from preparing a business plan. **(15 marks)**
9. Cora Redmond opened her first gym, Fit Fighters, on Pearse Street, Monasterevin, five years ago after graduating from college with a degree in fitness and nutrition. The gym offers an extensive range of fitness classes for all levels and is kitted out with the latest fitness equipment. She often has promotions offering off-peak membership at reduced prices.

   She now wants to expand her business and buy a new premises in nearby Kildare town. She has savings of €50,000 and needs a long-term loan of €300,000. She is preparing a business plan to accompany her loan application to the bank.

   Draft a business plan for Cora to help her loan application to the bank under the following three headings:
   - Ownership
   - Finance
   - Marketing **(30 marks)**

10. Michael Mooney set up his own crèche business four years ago after graduating from college with a certificate in childcare. The crèche is situated just off the main street in Croagh, County Limerick and has been very busy since Michael first opened it. There is currently a waiting list for parents who wish to enrol their children for next year. Because of the high level of demand, Michael wishes to expand the crèche by building an extension to his existing premises. He has savings of €10,000 and reserves of €40,000, and needs a long-term loan of €400,000. He is preparing a business plan to accompany his loan application to the bank.

Draft a business plan for Michael to help his loan application to the bank under the following three headings:

- Ownership
- Finance
- Marketing

(30 marks)

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "sole trader" and "partnership".
2. What is a private limited company? Give **two** examples.
3. Outline your understanding of the term "unlimited liability".
4. Explain the term "limited liability". Outline its impact on the development of the Irish economy.
5. The following table shows three types of production and four qualities.
   For each quality, tick (✓) the type of production which is **most** likely to match that quality.

	Job	Batch	Mass
Uses specialised machinery			
Continuous production of identical products			
Enjoys massive economies of scale			
Product is never in stock when the customer first asks for it			

6. Define "business plan".
7. Outline **two** headings contained in a business plan.
8. Explain why an entrepreneur would prepare a business plan.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

KFT Bathrooms

Andrew Murphy worked for a leading firm of architects in Galway for many years after graduating from college with an honours degree in architecture. He recently left the firm and used his savings to set up his own bathroom-design business, KFT Bathrooms, as a sole trader. He operates the business from the garage of his house.

Andrew is finding the running of his business to be quite challenging – for example, he has no knowledge of taxation or employment law. As his business is growing, he needs to find a more permanent premises, but the high cost of property in Galway means that he cannot afford to do so. His friend advised him to change the business structure to a private limited company, but Andrew is reluctant to give away shares in his business.

Andrew is finding the world of bathroom design extremely competitive. His competitors are ruthless and are always trying to find out about his business and copy his successful ideas.

Evaluate the benefits and challenges for Andrew of changing his business to a private limited company. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. A friend of yours has come to you looking for advice. She is setting up her own business but is unsure about the different options – sole trader, partnership and private limited company. Recommend one type of business organisation to her. Support your answer with well-explained reasons. **(20 marks)**
2. Contrast a partnership and a private limited company as suitable forms of business organisation for a business start-up. **(20 marks)**
3. Bolade Okonkwo has recently graduated from catering college with a higher diploma in cookery. Prior to this she worked in a restaurant in various positions for ten years. She now wishes to set up her own restaurant specialising in healthy menus. Draft a business plan for the proposed new business under **five** main headings, outlining the contents under each heading. **(40 marks)**
4. Evaluate the usefulness of a business plan to an entrepreneur when starting a business. **(20 marks)**

UNIT 5

CHAPTER 18 BUSINESS EXPANSION

LEARNING OUTCOMES

In this chapter, we will look at:

- The different methods available to entrepreneurs to grow their business over time.
- The reasons why entrepreneurs might want to grow their business over time.
- Where entrepreneurs can get the money needed to grow their business.
- How growing a business affects the business and everything relating to it.

So far in this unit, we have looked at starting a business. Over time, the entrepreneur may wish to grow the business that he started. This is called business expansion.

In 1944, the first Dunnes Stores opened, in Cork. Today, the company has over 140 stores in Ireland, the UK and Spain.

McDonald's started with one restaurant. Today, there are over 38,000 McDonald's restaurants in over 100 countries worldwide.

Methods of Business Expansion

Both Dunnes Stores and McDonald's started off small and grew to become large, successful and highly profitable businesses. They expanded in different ways, though. So, the question is: How can business growth be achieved?

The two main methods to expand a business are called organic growth and inorganic growth.

Organic Growth

Organic growth is the natural, **slow** expansion of a business. Profits made from one shop are used to buy another shop. This cycle is repeated so that over time, the business expands and owns lots of shops. A business can use the following organic strategies to help it expand:

Organic Strategy/Method 1: Franchising

The original owner (franchisor) of a business expands it by agreeing to let other people (franchisees) use its name, logo and business idea, in return for a once-off fee and an annual share of the profits.

The franchisor trains and advises the franchisees in all aspects of running the business. He also lays down very strict rules for running the business that all franchisees must obey.

Supermac's expanded all over Ireland through franchising. McDonald's, Subway and Domino's Pizza have expanded all over the world in the same way.

The advantages of franchising as a method of expansion are as follows:

- **Little capital required:** The original owner of the business (franchisor) does not need a lot of finance to expand his business. The franchisees are the ones who put up most of the money. They pay the franchisor a fee and they pay for the buildings, equipment and other items they need for each new business.
- **Economies of scale**: The bigger the franchisor's business becomes through franchising, the bigger the economies of scale he will enjoy. For example, as he will be buying supplies for a much larger business, he will get a much bigger discount from his suppliers. These economies will help the franchisor reduce his unit costs and make the business more competitive.
- **Less supervision required**: The franchisor will be able to expand his business without getting involved in the detailed management and supervision of each new business. The franchisees are responsible for the day-to-day operation of their business. They will look after hiring, motivating and retaining employees.
- **Dedicated franchisees**: The franchisor can relax in the knowledge that the person operating the franchise will be totally motivated to make it work and strive to make it a success. This is because the franchisee invests her own money in the franchise, so she has a vested interest in it. Her entire livelihood depends on it. An owner will be more attentive than a manager.

The disadvantages of franchising as a method of expansion are:

- **Risk to reputation**: The reputation of his business and the goodwill that the franchisor has built up can be harmed or even ruined by the actions of the franchisees. If any one of them makes a mistake, in terms of poor quality standards or staff problems, this can damage the entire brand.
- **Loss of control**: The franchisor loses control over the day-to-day management of each franchise. He has little direct influence over which employees are hired or the level of customer service offered.
- **Training**: The franchisor will have to give each franchisee training and guidelines in all aspects of setting up and running the business. This will take a lot of time and cost a great deal of money.

Organic Strategy/Method 2: Increase Sales

The business can grow by selling more products and thus make more profits. It can increase sales through better marketing and by improving its product.

Lucozade was launched in 1927 as a drink that aided recovery during illness. In the 1970s, sales declined as populations grew healthier. In 1982, it was repositioned as a drink that replaced lost energy. This helped the company to increase sales year on year.

Alternatively, the business can grow by selling its products in different countries. This is called exporting.

Baileys grew by exporting all over the world. Baileys was first launched in Ireland in 1974. Today, it is sold in over 160 countries worldwide and is the top-selling liqueur in the world.

Inorganic Growth

Inorganic growth is the quick expansion of a business achieved by merging with, taking over or forming a strategic alliance with another business. A business can use the following inorganic strategies to help it expand:

Inorganic Strategy/Method 1: Strategic Alliance

A strategic alliance (or alliance) is where two separate and independent businesses make a deal to cooperate with each other on a particular business project. They pool their resources and expertise to make the project a success. It is sometimes called a joint venture. There is no change in ownership as both businesses remain separate corporate entities.

Working together on the business project benefits them both. They benefit from **sharing** the costs of the venture and sharing their expertise and skills to brainstorm the best possible ideas.

An example of a strategic alliance is the one between the watch company Swatch and the car manufacturer Mercedes-Benz, which worked together to make the "Smart" car. (SMART stands for Swatch Mercedes Art). By working together, they could share ideas. They combined the styling and design ideas of Swatch with the technological knowledge of Mercedes to produce a radically different car. By working together, they could split the costs of designing and producing the car. Both businesses expanded as a result – Swatch now sells watches and cars, while Mercedes-Benz now sells high-end luxury cars plus a fun small car aimed at a different segment of the market.

In another example, Nestlé and Starbucks formed a strategic alliance that allows Nestlé to sell Starbucks products outside of the coffee-company's shops. The deal means Nespresso machine owners can buy Starbucks coffee branded products for use at home.

The advantages of an alliance as a method of expansion are:

- **Cost-effective expansion**: An alliance is a good way to expand as the businesses involved split the costs of the venture. Furthermore, the businesses can share their equipment and other assets with each other. This means that each business can expand without having to provide all the money required. Swatch and Mercedes-Benz developed the Smart car and each company had only to contribute half the capital needed.
- **More successful expansion**: The parties to the alliance can brainstorm ideas with each other to come up with the best possible business venture. They share their knowledge and expertise with each other. For example, Swatch and Mercedes-Benz's alliance to produce the smart car allowed engineers and designers from both companies to share ideas to produce the best car possible.
- **New markets:** An alliance can open up new markets to both businesses. This means that it can be used to attract new customers to each business, thereby increasing each business's sales

and profits. People are loyal to the brands that they trust. When a business enters a strategic alliance, it gains the loyalty of the customers from the other alliance members, too. That makes it possible to expand its customer base.

> The alliance between Nestlé and Starbucks has resulted in higher sales for both companies.

The disadvantages of an alliance as a method of expansion are:

- **Disagreements**: The two parties to the alliance may have a disagreement if one feels that they are not getting as much out of it as the other. One company may feel the alliance is unequal as it is contributing more to it than the other company. Smaller businesses may feel that their identity is obscured by the higher profile of the bigger business in the alliance.
- **Corporate secrets may be lost**: Strategic alliances require a business to share its resources and often its knowledge and skills as well. Sharing knowledge and skills can be problematic if they involve trade secrets. The business may lose its competitive advantage if the other party acquires its intellectual property.

Inorganic Strategy/Method 2: Merger

A merger (also called an amalgamation) is where two separate businesses voluntarily agree to join together **permanently** to form a single new legal entity. Neither of the businesses has control over the other. They join together for their mutual benefit.

> The French airline Air France and the Dutch Airline KLM merged to form Air France-KLM. It became one of the biggest airlines in the world. This enabled the company to negotiate better discounts when buying new aircraft. It allowed the company to enjoy increased sales by offering more routes to customers.

The advantages of a merger as a method of expansion are as follows:

- **Economies of scale**: The bigger a business grows the lower its unit costs become. This is called economies of scale. The merged business is bigger and so buys more supplies and therefore gets a bigger discount from suppliers.

> Air France-KLM gets its fuel much cheaper now because, as a bigger business, it buys more that either company did before the merger. Because its costs are lower, it can lower its prices and thus fight back against its competition.

- **Quick access to new ideas and products**: A merger can save a business a lot of time developing new ideas and products and markets. When one business joins with another, it immediately gets access to that other business's ideas, products, machines, staff and markets.
- **Increased profits**: A merger allows the two businesses to cut out all duplication. The new business does not need two of everything. For example, it can cut staff. So, while its revenues increase, its costs decrease, thus giving the merged business bigger profits.

- **Synergy**: Synergy is where the whole is greater than the sum of its parts. When two or more businesses combine their efforts, they can accomplish more together than they can separately. The two businesses combined do better than the sum of their separate performances. For example, if a shop

selling take-away coffee merged with a shop selling pastries, the better offering (coffee with pastries) would attract new customers to the merged business.

The disadvantages of a merger as a method of expansion are:

- **Conflict**: When the businesses were separate entities, each would have had its own practices and policies. When they merge, this can lead to a clash of cultures as managers disagree over the best methods to use as each manager is used to doing things his own way. These clashes can make the business less effective.
- **Reduces employee motivation**: In the short term, employees in the merged business may become worried about the security of their jobs, as mergers invariably lead to redundancies. This lowers their motivation and productivity. In the long term, because of the lack of promotion prospects (more employees chasing each promotion), the business may lose some excellent employees, who leave for better jobs elsewhere.

Inorganic Strategy/Method 3: Takeover

A takeover (also called an acquisition) is when one business buys a controlling stake (more than 50% of the shares) in another business and thus 'acquires' it. The business that is bought out then becomes part of the acquiring company.

A takeover can be **hostile**. This means that the directors of the target company recommend that the shareholders do not sell to the bidder.

> Ryanair launched a hostile takeover bid for Aer Lingus. The directors of Aer Lingus recommended that shareholders reject Ryanair's offer of €1.30 per share because they believed it undervalued the company.

The takeover can be **friendly**, which means that the directors of the target company recommend the shareholders sell to the bidder.

> Meta (then called Facebook) bought WhatsApp for $19 billion and Instagram for $1 billion. Three Ireland bought O2 Ireland for €780 million.

The advantages of a takeover as a method of expansion are:

- **Economies of scale**: The bigger a business grows, the lower its unit costs become. This is called economies of scale. A bigger business buys more supplies and therefore gets a bigger discount from suppliers. Because its costs are lower, it can lower its prices and thus fight back against competition.
- **Increased profits**: A takeover allows the two businesses to cut out all duplication. The new business does not need two of everything. For example, it can cut staff. So, while its revenues increase, its costs decrease, thus giving the business bigger profits.

> When Three took over O2, it closed a number of the O2 stores in Ireland. It wanted to avoid duplication of shops in towns that had both a Three and an O2 store.

- **Quick access to new ideas and products**: A takeover saves a business a lot of time developing new ideas, products and markets. When one business buys another, it immediately acquires that business's ideas, products, machines, staff and markets.

> Coca-Cola bought Innocent to get access to its healthy smoothies market.

The disadvantages of a takeover as a method of expansion are:

- **Capital required**: Buying another business can cost a lot of money. If the business borrows the money, its debt/equity ratio increases, increasing its risk of bankruptcy. If it sells shares, the existing owners' control over their business may be reduced.
- **Industrial relations problems**: A takeover often results in rationalisation and job losses as the business can cut out all duplication. When Three took over O2, it closed a number of the O2 stores in Ireland and made the employees redundant. Making employees redundant leads to poor industrial relations in the business.

Reasons for Business Expansion

The obvious reason why an entrepreneur wants to expand his business is to make more profits. There are plenty of other reasons though, which can be grouped into defensive and offensive reasons.

Defensive Reasons

A major reason for businesses growing bigger is that bigger businesses are stronger, richer and better able to fight back against competition and to deal with other problems. The main defensive reasons for business expansion include:

1. Economies of Scale

The business may want to grow bigger in order to reduce its unit costs. The bigger a business grows, the lower the cost of making each product becomes. This is called economies of scale. Because it makes its product cheaper, it can sell it cheaper. This helps it to compete.

> The more bread a big business like Dunnes Stores buys, the cheaper it gets each loaf for (it gets a bulk-buying discount from its bread suppliers). Because Dunnes Stores buys the bread cheaply, it can sell it cheaply and this helps the company to fight back against competition from ALDI and Lidl.

2. Diversification

A business may grow bigger so that it can defend itself against a downturn in its market. The business expands by taking over or merging with a business in a totally unrelated area. If one of its companies goes through a bad patch and makes a loss, profits from the other companies can keep the business going.

> The shaving products manufacturer Gillette diversified when it bought Parker Pens. As the two brands service different markets, Gillette is spreading the risk of doing business across different sectors.

3. To Protect Supplies

A business may grow bigger to ensure that it has a consistent supply of good-quality, reasonably priced raw materials (ingredients). It might merge with or take over the business it buys its materials or products from. This will guarantee that it will get all the supplies it needs in the future and at cost price. This is called **backward vertical integration**.

Say an ice-cream manufacturer buys milk from ABC Dairies, the most popular dairy in Ireland. Last year, the dairy increased the price of milk by 15% and it has just told the ice-cream company that it intends to raise prices a further 25% this month. To fight back against these constant price increases, the ice-cream company might decide to make an offer for the dairy and take it over. When it expands and buys the dairy, it gets all the milk it needs and at cost price.

4. To Protect Distribution

A business may grow bigger to defend itself against its competitors. To ensure that its products are on sale in key markets, the business might merge with or take over the firm that sells its products on to consumers. In this way, it guarantees a market for its products. This is called **forward vertical integration**.

The makers of Bulmers Cider, C&C, bought a chain of more than 800 UK pubs. The company did this in order to get more of its drinks direct to consumers in England and Wales.

Offensive Reasons

A business may expand so that it becomes the biggest and best in the industry, with the highest level of profits. The main offensive reasons for business expansion include:

1. To Eliminate Competition

A business might become bigger by taking over one of its competitors. It does this in order to get rid of the competition and thus maintain its dominance over the market.

Ryanair tried to take over Aer Lingus several times. Had it succeeded, it would have become the only major Irish international airline and would have controlled a huge share of the Irish market.

2. Asset Stripping

An entrepreneur might take over a business because he sees an opportunity to make money either by using the business's assets better or by selling them off to make a profit. He has no intention of running the business.

A property developer might take over a city-centre hotel chain, not to run it but for the land the hotels sit on. As soon as the developer acquires the hotel business, he knocks down the hotels and builds apartments on the sites and makes a large profit.

3. To Acquire New Products

An entrepreneur may take over another business because a takeover saves a business a lot of time developing new ideas, products and markets. When one business buys another, it immediately acquires that business's ideas, products, machines, staff and markets.

Coca-Cola bought Costa Coffee shops to gain access to the hot-beverage market.

Finance for Business Expansion

Because expansion is the long-term growth of a business, entrepreneurs use **long-term** finance to pay for expansion. In Chapter 13, we studied the main sources of long-term finance for a business. The main sources of long-term finance that a business can use for expansion are equity capital, retained earnings and debentures.

Equity Capital

The entrepreneur raises money to pay for expansion by selling shares in his business to investors. In return for the money they provide, he gives them part ownership of his business. For every share they buy, they get a vote and a share of the business's profit, called a dividend.

Meta paid for its takeover of WhatsApp mainly through equity.

Retained Earnings

Retained earnings are the profits that the business has saved up over the years. It can use these profits to pay for expansion. Because the business has not borrowed, there is no interest to repay and no worry about going bankrupt.

Ryanair used some of its retained earnings to buy a large number of shares in Aer Lingus.

Debt Capital

The entrepreneur raises money to pay for expansion by borrowing from investors, such as a bank. One long-term loan available to companies is called a debenture. The company must pay interest on the debenture loan every year and it must repay the loan itself in full at an agreed date in the future. Using debt capital does not involve giving the investors part of the business. However, the business must put up its assets as security for the loan. If it cannot repay the loan, the investors can take the business's assets.

International Airlines Group (IAG) borrowed €1.4 billion from banks to buy Aer Lingus.

Contrast Debt and Equity Capital

Debt capital involves borrowing, whereas equity capital is the money invested by the owners of a business. A business can decide which is best for it by looking at the differences between the two options.

- A business financed by equity has no interest to pay and no loan repayments to make. If it goes through a bad patch and is making less money, it will still survive because it has nothing to pay out on loans. Therefore, there is less chance of going **bankrupt** with equity finance. *In contrast*, a business that is financed by debt has lots of interest and loan repayments to make every year. If it goes through a bad patch and misses some repayments, its lenders may get a judge to close the business down and sell it off and use the proceeds to pay them what they are owed. Thus, there is a higher chance of going bankrupt with debt capital.

- With equity finance, the business does not have to pay any dividends to shareholders if it does not make a profit, because it is up to the directors of the business to decide how much dividends are paid

out. *In contrast*, with debt capital, the business must pay a fixed rate of interest on the loan every year whether or not it makes a profit.

- With equity finance, the business does not have to provide **security** in order to get the finance. So the business does not risk losing its assets, such as its premises or its factory, with equity finance. *In contrast*, security is needed to obtain debt capital. So the business risks losing its assets if it cannot repay the loan.
- Equity is a permanent source of finance. The business does not have to repay this capital to the shareholders until the business is closed down. *In contrast*, with loan capital, the business must repay the loan in full on a particular date in the future.
- With equity finance, any dividends the business pays to the investors are not tax deductible. The business cannot subtract the dividends from its taxable profits. So, the business does not save tax with equity finance. *In contrast*, interest paid on loan capital is tax deductible. The business can subtract the interest it pays from its taxable profits. So, the business pays less **tax** with debt finance.
- Selling equity shares reduces **ownership** over the business. The existing owners must give some of their shares (part of their business) to the new investors in order to obtain the equity finance. *In contrast*, taking out loan capital does not affect ownership over the business. The existing owners do not have to give any of their shares to the lender.

Contrast debt and equity capital	Debt	Equity
Risk of going out of business (bankrupt)?	Higher	Lower
Must the finance be repaid?	Yes	No
Does interest have to be paid?	Yes	No
Is security needed to get this finance?	Yes	No
Does this source help the business reduce its tax bill?	Yes	No
Does the business have to give away shares to get this finance?	No	Yes

Choosing Finance for Expansion

When choosing which source of long-term finance to use for business expansion, the manager of the business will have to consider the following factors:

Cost

The manager should shop around for the cheapest source of finance. This will help to lower the business's costs and thus increase profits. For example, if the manager chooses to finance the expansion by selling shares in the business (equity finance), the business must pay the investors dividends every year. But the directors decide exactly how much the business can afford to pay them. If profits are low, they can pay low or even no dividends. If, however, the manager decides to use loan capital, the business must repay interest on the loan. The interest is fixed and the business must pay it regardless of whether it makes a profit or not.

Security

The manager must take into account the fact that if the source of finance requires collateral, the business is risking its assets. For example, if the manager uses equity finance, no security is required and therefore the business's assets are not at risk. However, if the manager uses debt capital, collateral is needed and the business risks losing its assets, such as its buildings, to repay the loan.

Tax Implications

The manager must look at the source of finance to see whether the business will get a tax deduction for the repayments it makes on it. If so, this will reduce the cost of the finance. Interest on loan capital is tax deductible and will lower the business's tax bill, but dividends paid on equity shares will not.

Ownership

The manager must look at each source of finance to see whether it involves the owners giving away some of their shares in the business. If so, this will reduce their control over their business. Loan capital does not involve giving away shares, but equity capital does. The business owners must balance their desire for money with their control over their business.

Implications of Business Expansion

FOR:	SHORT-TERM IMPLICATIONS (in the next few months)	LONG-TERM IMPLICATIONS (in the next few years)
Share price	When a business expands, its share price should increase because investors want shares in big successful companies and will pay more to get them. Aer Lingus's share price increased when it was announced that International Airlines Group (IAG) was taking it over.	Bigger businesses make bigger profits and therefore the share price should increase because investors will pay more to buy shares in more profitable businesses.
Products	Bigger businesses have a bigger range of products for the customer.	A bigger business has more money to spend on market research and product development. This should lead to a bigger range of products.

FOR:	SHORT-TERM IMPLICATIONS (in the next few months)	LONG-TERM IMPLICATIONS (in the next few years)
Management and organisation structure	The business may need a new organisational structure. For example, when two businesses merge, the new business will only need one chief executive officer.	The bigger the business grows, the harder it becomes for one person to manage and so the greater the amount of delegation needed. The business may need to switch to a geographic structure to cope with expansion into different countries and/or a product structure as the number of products it offers increases.
Finances	The business will have to raise finance to pay for the expansion. This will involve selling shares or borrowing.	Bigger businesses have a better credit rating and more collateral and find it easier to get loans. Also, investors want to put their money into successful firms, so it will be easier to raise equity capital in the future.
Supplies	Bigger businesses get quantity discounts from suppliers because they buy in bulk. They also get quicker delivery and better service because they buy so much from the supplier.	Bigger businesses get quantity discounts from suppliers because they buy in bulk. They also get quicker delivery and better service because they buy so much from the supplier.
Profits	The costs involved in expansion (paying for the new business, redundancy packages, etc.) may lead to a decrease in profits.	Economies of scale should lead to increased profits.
Employees	Employees may be worried about their jobs as mergers and takeovers normally mean job cuts. This may result in lower employee morale and motivation. For example, when Three took over O2, it closed a number of the O2 stores in Ireland and made the employees redundant. It wanted to avoid duplication of shops in towns which have both a Three and an O2 store.	Big successful businesses provide better pay, job security and increased promotion prospects for employees.
Customers	Customers will enjoy a bigger range of products in a bigger business and at lower prices (due to economies of scale).	Although customers enjoy more products and lower prices, they may be turned off by the impersonal service offered by big businesses.

Importance of Business Expansion

Importance of Irish Business Expanding in Ireland

It is really important for the Irish economy that Irish businesses grow bigger here in Ireland (domestic market) for the following reasons.

- Bigger businesses in Ireland make bigger profits because of factors such as economies of scale. Bigger business profits result in more **taxes** for the Irish government to spend improving the country's infrastructure, repaying the national debt, offering more grants to entrepreneurs and so on.
- When a business expands in Ireland, it needs to hire more employees to do the extra work. Therefore, business expansion leads to **lower unemployment** in Ireland and a higher standard of living for Irish people.

> Dunnes Stores has over 100 stores in Ireland employing more than 10,000 people.

- As a business expands in Ireland and sells more products, it will need to buy more raw materials and ingredients from Irish suppliers, which in turn helps them to expand. Thus, one Irish business's expansion has a **spin-off effect** on other Irish businesses. As Dunnes Stores expanded all over Ireland and opened more and more stores, it bought more and more food from Irish food producers, thus increasing their profits.

- As a business expands in Ireland, its unit costs decrease because of economies of scale. Therefore, the business can charge a lower price for its products. This helps to lower the cost of living (inflation) in Ireland.

Importance of Irish Business Expanding Abroad

It is also vital for Ireland that Irish businesses expand abroad into foreign markets. Expansion abroad brings the following benefits:

- Increased sales abroad can lead to the creation of more **jobs** here in Ireland. Therefore, business expansion leads to lower unemployment in Ireland and a higher standard of living for all. When Baileys started to export, it had to hire more Irish people in its factory to make all the products to satisfy international demand.
- Exporting improves Ireland's **balance of payments**. This means that it brings a lot of money into the country and makes Ireland richer.
- Exporting brings **foreign currency** into Ireland, which we can use to pay for the goods and services we import.
- Exporting improves our **international relations**. We become friendlier with countries that we export to. They may help us when we need it. As a small country, Ireland depends on support from bigger, more powerful nations. For example, when the Irish economy suffered an economic downturn and banking crisis, the UK government gave us a loan. The Chancellor of the Exchequer (UK finance minister) said the reason for helping us was because "Ireland is our very closest economic neighbour".

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "organic growth" and give **two** examples.
2. Name **three** ways that a business can expand inorganically.
3. Explain the term "franchise" and give **two** examples of businesses that have expanded through franchising.
4. Distinguish between a merger and a takeover.
5. Outline **two** benefits of a strategic alliance for businesses.
6. Define "economies of scale".
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Expansion	(a) Business sets up a totally different business to spread its risk
2. Diversification	(b) Irish businesses sell their products abroad
3. Asset stripping	(c) Two businesses work together on a joint venture
4. Strategic alliance	(d) Two businesses join together permanently to form one large business
5. Inorganic growth	(e) Business increases in size
6. Exporting	(f) One business buys another, not to run it but to get its valuable assets
	(g) For example, a business grows quickly by buying out another business.

1	2	3	4	5	6

8. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	When a business expands, its share price always falls.	
B	Bigger businesses get big discounts from suppliers for bulk buying.	
C	Bigger businesses offer customers a wider range of products.	
D	In the long run, bigger businesses usually make very low profits.	
E	Bigger businesses find it easier to borrow from banks than smaller businesses do.	

9. Outline **two** advantages of business expansion for Ireland.

EXAM SECTION 2 – LONG QUESTIONS

1. Distinguish between organic growth and inorganic growth. **(10 marks)**
2. Explain each of the following terms:
   (i) Strategic alliance (ii) Merger (iii) Takeover **(15 marks)**
3. Outline **three** defensive reasons for business expansion. **(15 marks)**
4. Describe **three** offensive reasons for business expansion. **(15 marks)**
5. Weimin runs his own hairdressing business and is thinking of opening a second shop.
   Name **three** sources of finance that he could use to expand, and explain any **one** of them. **(20 marks)**
6. Explain the implications of business expansion on a business's:
   (i) Products (ii) Management (iii) Finances **(10 marks)**
7. State **three** advantages for Ireland of Irish firms expanding abroad. **(15 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "business expansion".
2. Complete this sentence: Organic growth involves…
3. Define "strategic alliance".
4. Explain the concept of "franchising".
5. Illustrate the difference between a strategic alliance and a merger.
6. What is a takeover?
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Backward vertical integration
2. Forward vertical integration
3. Equity capital
4. Diversification
5. Economies of scale

Column 2: Explanations
(a) The larger a business becomes, the lower its unit costs become
(b) A business merges with or takes over its supplier
(c) Finance provided by the government to help the business buy things.
(d) Finance provided by the owners of the business
(e) A business merges with or takes over its distributor
(f) Refers to a business's effort to spread its risk

1	2	3	4	5

8. Complete this sentence: Business expansion helps a business to…
9. List **four** differences between debt capital and equity capital.
10. Name an Irish business that has expanded abroad. Explain two reasons why this business's international expansion is important to the Irish economy.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

FP's Fast Food

Fabiola Popescu graduated from catering college fifteen years ago and immediately set up her own fast-food restaurant, FP's, in her home town, a seaside resort popular with sailing and surfing enthusiasts. The business has done well since then, especially during the busy summer tourist season. Over the years, Fabiola has reinvested most of her profits and used them to pay for the building her restaurant is situated in. She enjoys running her own business and making all the decisions.

Recently, however, Fabiola has begun to notice an increasing number of problems in the business. Profits have fallen since a new fast-food restaurant offering cheaper menus opened close by. The growing trend towards healthy eating has also impacted negatively on her business. Fabiola is finding it harder to find and keep good staff. Employees complain that they are given menial tasks to do despite the fact that many are catering-college graduates, just like Fabiola.

Fabiola's business adviser told her that she needs to expand the business if she is to survive long term. Fabiola has doubts about this strategy. She is concerned about the amount of money needed to pay for the new premises and required equipment.

Evaluate **one** organic and **one** inorganic method of expansion suitable for Fabiola's business. **(30 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Explain **four** methods of expansion available to a business. (20 marks)
2. Outline the benefits and risks of franchising as a method of business expansion. (25 marks)
3. Discuss the advantages and disadvantages of an alliance as a method of business expansion. (20 marks)
4. Illustrate your understanding of the term "takeover". Recommend with reasons why a takeover is a suitable method of expansion for a business. (25 marks)
5. Distinguish between offensive and defensive reasons for business expansion. (20 marks)
6. Discuss the reasons why entrepreneurs expand their businesses. (20 marks)
7. Outline and illustrate the term "economies of scale". (10 marks)
8. Describe **three** sources of finance suitable for business expansion. (30 marks)
9. Explain the factors that a manager must consider when choosing a source of finance for business expansion. (20 marks)
10. Define business expansion. Outline the implications of expansion for a business. (20 marks)
11. Analyse the importance of Irish business expansion in the domestic and foreign markets. (30 marks)

NOTES

UNIT 6

CHAPTER 19 BUSINESS ORGANISATIONS

LEARNING OUTCOMES

In this chapter, we will look at the different types of businesses that exist in Ireland:

- Those set up by people living in Ireland.
- Those set up by the Irish government.
- Those set up by people living outside Ireland.

Types of Business

Many different types of business operate in Ireland today. Irish entrepreneurs own most of them. Some, though, are owned by the Irish government, whereas others are owned by foreign companies that have set up here. In this chapter, we look at the main types of business operating in Ireland:

- Sole trader
- Partnership
- Private limited company
- Public limited company
- Cooperative
- State-owned enterprise
- Franchise
- Alliance
- Multinational company
- Indigenous firm

Sole Trader

(also see Chapter 17, pages 313–314)

A sole trader is a business set up, owned and run by an entrepreneur **on her own**. This type of business is often used by entrepreneurs when setting up their first business, mainly because it is very easy to set up. It is also used by entrepreneurs who want to be in full control of their business.

Examples of sole traders include farmers, local chemists, hairdressers, newsagents and so on.

Advantages of Sole Traders

As discussed in Chapter 17, the advantages of sole traders are:

1. A sole trader is an **easy** business to set up. There are few legal registration requirements to satisfy before setting up. No government permission is required to set up in business as a sole trader.
2. Because the entrepreneur owns the business alone, **all the profits** go to her. This provides a great motivation to work hard in the business. The entrepreneur is directly rewarded for all her effort.

3. It is a **confidential** type of business. The business's financial accounts (profit and loss account and balance sheet) do not have to be published (made public). Therefore, no one else can get access to the sole trader's business secrets.
4. The sole trader can make decisions **quickly** because no time is wasted having discussions with others. This will help her to take advantages of opportunities and to respond to market changes swiftly.

Disadvantages of Sole Traders

1. The sole trader has **unlimited liability**. This means that if the business goes bankrupt and owes a lot of money, the sole trader herself is totally personally responsible for paying back all the business's loans. If after selling the business to repay the loans, debts are still owed, she will have to sell off her own personal assets, such as her house, to pay back these loans. In other words, setting up as a sole trader involves a huge risk. She risks losing everything she owns if the business fails – her business, her home and anything else she owns.
2. It is difficult and **stressful** to run a business alone. The sole trader has to rely on one person – herself – to know everything that is needed to run a business. There is no one to help her with major business problems and decisions.
3. It is difficult for a sole trader alone to raise all the **money** needed to set up and run the business. Sole traders may find it difficult to get loans from banks because sole traders are the business organisation most likely to go bankrupt.
4. In law, the business is not a separate legal entity. If any legal issues arise, it will be the sole trader herself who is personally sued, and not the business.
5. There is no continuity of existence. This means that when the sole trader dies, the business ends.

To overcome the disadvantages of running a business alone, an entrepreneur may set up in business with others – maybe as a partnership, a company or a cooperative.

Partnership

(also see Chapter 17, pages 314–315)

A partnership is a business set up, owned and managed by between two and 20 owners, called partners. They set up a business **together** and combine their resources and talents to make a profit.

Examples of partnerships include many professions, such as solicitors, doctors and accountants – for example, KPMG and PricewaterhouseCoopers.

Advantages of Partnerships

1. A partnership is a **simple** business to set up. There are few legal registration requirements to satisfy before setting up. No government permission is required to set up in business as a partnership.
2. Because more people are setting up the business, more capital is available to pay for the costs of setting up and growing the business. Each partner contributes some capital, so the business can raise more money to set up than a sole trader can.
3. Each of the partners may have different skills, making it easier to run the business, as they can **divide** all the work up between them. Also, because there are more people to consult and discuss problems with, a partnership should make better decisions than a sole trader.
4. It is a **confidential** type of business. The business's financial accounts (profit and loss account and balance sheet) do not have to be published (made public). Therefore, no one else can get access to the partnership's business secrets.

Disadvantages of Partnerships

1. The partners have **unlimited liability**. This means that if the business goes bankrupt and owes a lot of money, the partners are jointly and severally liable for paying back all the business's loans. If, after selling the business to repay the loans, debts are still owed, the partners will have to sell off their own personal assets, such as their houses, to pay back their share of the loans. But, if one partner cannot pay back her share of the loans, the other partners have to pay it for her.
2. Decision-making is **slower** because all the partners have to be consulted. This may make the business less flexible and less responsive to change. The partners may spend so much time debating new opportunities that, by the time they all agree, someone else may have exploited the opportunity.
3. In law the business is not a separate legal entity. If any legal issues arise, each partner is personally sued and not the business.
4. There is no "continuity of existence". If one of the partners dies or resigns, the entire partnership must be dissolved.
5. Profits have to be **shared** between the partners according to their agreed profit-sharing ratio. This is not necessarily a ratio based on how much effort they put in, which might be unfair on one partner who does most of the work.

Private Limited Company

(also see Chapter 17)

A private limited company is a business owned by between one and 149 owners, called shareholders. These shareholders have limited liability, which means their personal assets cannot be taken to repay the company's debts.

The company is run by directors who are voted in by the shareholders to run the business on their behalf. There are two types of private limited company: a company limited by shares (Ltd) and a designated activity company (DAC).

COMPANY LIMITED BY SHARES	DESIGNATED ACTIVITY COMPANY
The name of the company must end with the word Limited or Ltd.	The name of the company must end with the words Designated Activity Company or DAC.
The company can be run by only one director.	The company must be run by a minimum of two directors.
The company can have between one and 149 shareholders.	The company can have between one and 149 shareholders.
The company does not have to hold an annual general meeting.	The company must hold an annual general meeting every year.

COMPANY LIMITED BY SHARES	DESIGNATED ACTIVITY COMPANY
The company does not have to have an "authorised share capital". This means that it does not have to set a limit on how many shares it can sell.	The company must have an "authorised share capital". This means it must set down in advance the maximum number of shares that it intends to sell.
In its constitution there is one document only, called an "articles of association". There is no restriction on what the company can trade in (it can buy and sell whatever it likes).	In its constitution there are two documents, called an "articles of association" and a "memorandum of association". In the memorandum of association the company must set down what it intends to trade in, and it is then restricted to that trade only.

The company cannot sell its shares to the public.

In Irish law the company has a separate legal existence from its owners. This means that it is the company itself that owns property, and that it is the company that may sue and be sued in respect of the business of the company.

Examples of private limited companies include Eason and Son Ltd, River Island (River Island Clothing Company Ireland Ltd), Aviva (Aviva Insurance Ireland DAC) and Zara (ZA Clothing Ireland Ltd).

Advantages of Private Limited Companies

1. The shareholders (owners) have **limited liability**. This means that if the company goes bankrupt and owes a lot of money, the shareholders are not personally liable for paying back the company's loans. If, after selling the business to repay the loans, debts are still owed, the shareholders do not have to sell their own personal assets, such as their houses, to pay back their share of the loans. All they can lose is the capital they invested in the company.
2. Because more people (up to 149) are putting money into the business, it is easier to raise **capital** in a private limited company. Each shareholder invests some money in the business. The business can raise more money to set up and grow than a sole trader can.
3. A private limited company is a good choice when setting up a business because a number of people, called directors, are involved in running it. The workload can be split between the various directors, each of whom may have different skills and experience. The directors can **brainstorm** ideas for the business. This inventive, creative process will yield better decisions and ideas than a person operating on her own.
4. Private limited companies pay **less tax** on their profits than either sole traders or partnerships. The rate of corporation tax that companies pay on their annual business profits is much less than the rate of self-assessment income tax that sole traders and partners have to pay. Therefore, the company will have more profits left after tax to use for business expansion.

Disadvantages of Private Limited Companies

1. It is **complicated** to set up a private limited company. The shareholders must first apply for permission to set up the company from the Companies Registration Office (CRO). They cannot begin trading until they receive a certificate of incorporation from the CRO granting them permission to do so. Furthermore, they must also pay a fee for this service.
2. Under Irish law the company must **publish** its financial accounts (profit and loss account and balance sheet) each year, for all to see. It must make a full public disclosure of all its financial dealings. This means that a private limited company is not a very confidential type of business. Customers, competitors, employees and anyone else who is interested can see the company's financial position and may use this information to their advantage.
3. There are a lot of **legal requirements** to obey. Every year the company must send an annual return to the Companies Registration Office, and the company must get its financial accounts audited (verified by an independent accountant). As well as the time and effort that goes into these, they also cost the company a lot of money.
4. Profits have to be **shared** between the shareholders according to a ratio based on how much money each invested in the business, and not necessarily in proportion to how much effort each puts in.

Setting Up a Private Limited Company

We saw that one of the disadvantages of setting up a private limited company is that it is complicated to set up such a business. The business has to apply for permission and obey certain rules. The rules for setting up a private limited company are contained in the Companies Act, 2014. There are four steps involved in setting up a company limited by shares, as follows:

Step 1

The people setting up the company (called the founders) must prepare two documents: a constitution and a completed Form A1 provided by the Companies Registration Office. The constitution of the company depends on whether it is a company limited by shares or a DAC, as follows:

Company Limited by Shares (Ltd)	Designated Activity Company (DAC)
The Constitution consists of one document: an articles of association. This is a legal document that sets out the rules and regulations for the internal running of the company. It contains the following details: ■ Name of the company with Ltd as the last word. ■ A statement saying that the shareholders have limited liability. ■ Details of the company's share capital. ■ A list of all the founding shareholders' names, addresses, shares and signatures. ■ The rules by which the company will be run – rules such as how AGMs are to be conducted, how directors are to be appointed, and so on.	The constitution consists of two documents: an articles of association and a memorandum of association. The memorandum of association contains the following details: ■ Name of the company, with DAC as the last word. ■ The objects of the company (i.e. what the company is going to trade in). ■ A statement saying that the shareholders have limited liability. ■ Details of the company's authorised share capital (the maximum number of shares that it will sell). The articles of association is a legal document that sets out the rules and regulations for running the company. It contains the following details: ■ A list of all the founding shareholders' names, addresses, shares and signatures. ■ The rules by which the company will be run – rules such as how AGMs are to be conducted, how directors are to be appointed, and so on.

Here is a sample constitution for a company limited by shares:

Constitution of Finnie Ltd

1. The name of this company is **Finnie Limited**.
2. The company is a private company limited by shares, registered under the Companies Act, 2014.
3. The shareholders in this company have limited liability.
4. The share capital of this company is divided into shares of €1 each.
5. The following rules shall apply to the company:

Meetings

(a) 28 days' written notice must be given in advance of all annual general meetings.
(b) All votes shall be held by secret ballot.

Directors

(a) All directors must own shares in the company.
(b) A director can be removed from office at the annual general meeting by simple majority vote or during the year by 75% majority vote.

6. We agree to set up this company and to take the following number of shares:

NAME	ADDRESS	SHARES	SIGNATURE
Tessie Finnie	10 Black Street, Gorey	200,000	Tessie Finnie
Joe Finnie	45 Green Street, New Ross	100,000	Joe Finnie

Here is a sample constitution for a DAC:

Constitution of Vistana DAC

Memorandum of Association

1. The name of this company is Vistana DAC.
2. The company is a designated activity company limited by shares, registered under the Companies Act, 2014.
3. The objects for which the company are established is the sale of coffee.
4. The shareholders in this company have limited liability.
5. The share capital of this company is €500,000 divided into 500,000 shares of €1 each.

Articles of Association

The following rules shall apply to the company:

Meetings

(a) 28 days written notice must be given in advance of all annual general meetings.
(b) All votes shall be held by secret ballot.

Directors

(a) All directors must own shares in the company.
(b) A director can be removed from office at the annual general meeting by simple majority vote or during the year by 75% majority vote.

We agree to set up this company and to take the following number of shares:

NAME	ADDRESS	SHARES	SIGNATURE
Gladys Browne	16 Latrice Street, Navan	15,000	Gladys Browne
Tessie Barclay	19 Royale Street, Arklow	12,000	Tessie Barclay

Note: A designated activity company (DAC) is NOT ALLOWED to do anything that is not written down in its objects clause in its memorandum of association. To do so is illegal and is known in law as acting *ultra vires*, which means acting outside the powers of the company.

Form A1

The founders must fill in this form. It requires them to give details of:

- The company's name, registered office and email address.
- Details of the secretary and the directors.
- Signatures of the secretary and the directors, showing that they agree to be the secretary and directors in this company.
- Details of the founding shareholders and details of their shares.
- A declaration that the requirements of the Companies Act, 2014 have been complied with.

Step 2

The founders must send the constitution and the completed Form A1 (together with the appropriate fee) to the Registrar of Companies at the **Companies Registration Office**.

Step 3

The Registrar of Companies examines the documents to make sure they are in order. If they are, she gives the founders a **Certificate of Incorporation**. This is an official licence to begin trading as a private limited company.

Step 4

The company must hold its very first meeting, called its **statutory meeting**. At this meeting the constitution is explained to each shareholder and each shareholder receives her share certificate showing how much of the business she owns. The shareholders then vote in the first board of directors to run the business on their behalf.

The company can now begin trading. In Irish law the business is now "incorporated" and is separate from its owners. So it is the company that makes contracts and that is sued and that sues, not the individual shareholders.

Public Limited Company (PLC)

A public limited company (**PLC**) is a business set up by at least seven shareholders and is run by directors who are voted in by the shareholders. There is no upper limit as to how many shareholders there can be.

The shareholders have **limited liability**. This means that if the company fails, all they lose is the money they invested in it. The last word in the name of the company must be PLC (public limited company). The company can raise capital by selling its shares to the public.

Examples of public limited companies include Ryanair PLC and Paddy Power Betfair PLC.

Advantages of Public Limited Companies

1. The shareholders in the company have **limited liability**. This means that if the company goes bankrupt and owes a lot of money, the shareholders are **not personally liable** for paying back the company's loans. If, after selling the business to repay the loans, debts are still owed, the shareholders do not have to sell their own personal assets, such as their houses, to pay back their share of the loans. All they can lose is the capital they invested in the company.
2. Public limited companies find it easier to raise the **capital** they need. The company can raise large amounts of capital by selling shares to the public on the stock exchange. Public limited companies also have a good credit rating. This makes it easier to borrow money to expand the business.
3. Public limited companies pay **less tax** on their profits than either sole traders or partnerships. The rate of corporation tax that companies pay on their annual business profits is much less than the rate of self-assessment income tax that sole traders and partners have to pay. This leaves the public limited company with more after-tax profits for dividends and to pay for business expansion.
4. Public limited companies attract a lot of media interest. They are constantly written about in the newspapers and often mentioned on TV. This gives them a lot of free **publicity**. This helps them recruit the very best employees, as many people are attracted to working for a high-profile business.

Disadvantages of Public Limited Companies

1. Because the public can buy shares in a public limited company, the rules are even stricter to set one up than to set up a private limited company. This is to protect the public. The **application procedure** to form a public limited company is lengthier and costlier than to form a private limited company. The public limited company cannot begin trading unless it has received a Certificate of Incorporation and a Certificate of Trading from the Registrar of Companies.
2. A public limited company must **publish** its accounts in great detail. Therefore, it is not a very confidential type of business. Customers, competitors, employees and anyone else who is interested can see the company's financial position in great detail and may use this information to their advantage.
3. It is very **expensive** to sell shares to the public. A brochure (called a prospectus) detailing the history of the business has to be designed and printed. Advertisements have to be placed in newspapers. Lawyers and stockbrokers have to be hired to handle the sale of the shares.
4. A public limited company may become the target for a **hostile takeover bid** because its shares can be freely bought and sold on the stock exchange. This means that anyone can approach the shareholders and ask to buy their shares. If enough shareholders sell, the company is taken over. This can happen even if the directors do not want it to happen. This is how the US food giant Kraft (since renamed Mondelez International, Inc.) took over Cadbury despite the Cadbury board of directors opposing the bid.

People Involved in Companies

As we have seen, there can be up to 149 owners in a private limited company and any number (hundreds, thousands, even millions) in a public limited company. How is it possible to run a business with so many owners?

In many ways a company is run like a country. The millions of people who live in Ireland vote in a government to run the country for them. In a company the shareholders vote in a board of directors to run the company on their behalf. In Ireland the head of the government is An Taoiseach, who is in overall charge of running the country. In a company the managing director fulfils this role. Irish people elect a president to act as a figurehead (a leader without real power) for the country. A chairperson does a similar job in a company.

We now look at each of the people involved in running a company.

Shareholders

- Shareholders are the **owners** of the company.
- They invest their money in the company in return for shares (part-ownership) in the business.
- They receive a share of the company's profits each year, called a **dividend**.
- They can **vote** at the company's annual and extraordinary general meetings. Each share they own entitles them to one vote.
- They vote in a board of directors to run the company.

Board of Directors

- The board of directors is voted in by the shareholders of the company to run it for them.
- The board of directors makes all the major **decisions** in the company.
- The board of directors is responsible for ensuring that the business is successful. The board of directors is responsible for setting **goals** for the business and devising strategies to make sure they are accomplished.
- The board of directors must report back to the shareholders on how their company is progressing. This is done at the company's annual general meeting.
- The board of directors decides the share of the company's profits that each shareholder will receive at the end of the year. This is called a dividend.

Managing Director/Chief Executive Officer

- The managing director (MD), also known as the chief executive officer (CEO), is appointed by the board of directors to run the company on a day-to-day basis.
- The MD/CEO is in overall charge of the company. It is her job to see that the business achieves its objectives.
- The MD/CEO is the leader in the business who sets out a **vision** and a direction for the business, and must motivate all the employees to follow her and work together to make the business a success. For example, Michael O'Leary, group CEO of Ryanair, turned the company into one of the world's most successful airlines.
- The MD/CEO hires the senior managers in the business and delegates duties to them, such as marketing, production, finance and Human Resource Management. She evaluates their performance to make sure they are doing a good job, and must sack those not performing well.
- The MD/CEO is answerable to the board of directors.

Chairperson

- The chairperson is a director elected by the board of directors to be in charge of running the company's meetings.
- The chairperson also acts as a **figurehead** for the company.

Company Secretary

The company secretary is responsible for **administration** in the company. Her functions include:

- Keeping an up-to-date register (names, addresses and number of shares owned) of all the company's shareholders.
- Sending the company's annual return to the Companies Registration Office.
- Sending out the notice and agenda for all company meetings.
- Taking the minutes (record) at the company's meetings.

Auditor

An auditor is an **accountant** that most types of company must engage by law to check over its accounts to make sure that they are accurate. The auditor must be totally independent and have no connection with the company whatsoever. Her job is to:

- Make sure the company has kept proper accounting records; and
- Write a report stating whether the accounts are complete and accurate.

Cooperative

A cooperative (co-op for short) is a business set up by a group of people, who come together and establish an enterprise with the aim of **helping** one another. It is a business owned and controlled by its members and operates for the benefit of its members.

A group of farmers are annoyed at the low prices the local dairies offer them for their milk. They decide to cut out the middlemen by setting up their own co-op to sell their milk under one brand name directly to the supermarkets.

There must be at least seven owners in a co-op. There is no upper limit to the number of owners a co-op can have.

A co-op is run by a committee of management that is voted in by the owners.

The owners of a co-op have **limited liability**.

The owners apply to the Registrar of Friendly Societies for permission to set up a co-op by submitting a copy of the rules they intend to use to run the business. If the registrar is satisfied with the application, she issues a certificate of registration. The co-op now exists legally.

The co-op cannot sell its shares to the public on the stock exchange.

Examples of Cooperatives

Producer co-op	■ A group of producers (for example, farmers) set up a business together. They sell their produce to the co-op and it in turn sells it to the public. ■ Kerry Co-op is an example of this.
Worker co-op	■ This is a co-op owned and controlled by those who work in it. ■ Greencaps in Dublin Airport was a co-op set up by people from Ballymun in Dublin. It offered a left-luggage and luggage-porter service in Dublin Airport.
Credit union	■ A credit union is similar to a bank. It consists of a group of people (with a common interest – e.g. the same job, living in the same area and so on) who save together and lend to each other at a reasonable rate of interest. ■ Most communities in Ireland have a credit union. Over three million people are members of an Irish credit union, and billions of euro are saved with Irish credit unions. ■ Credit unions offer their members a place to save their money and to earn interest on their savings. ■ They also offer loans to their members at a reasonable rate of interest.

Advantages of Cooperatives

1. The owners of a co-op have **limited liability.** This means that if the co-op goes bankrupt, they will lose only the capital they invested in the business. They will not have to sell any of their personal assets to repay business loans.
2. Because there can be an unlimited number of owners, a co-op can raise large amounts of **capital** to set up, run and expand the business. Each owner can contribute some capital to the business.

3. Members of the co-op have a real say in how it is run. Co-ops are run on the principle of **one member, one vote**, and not one share, one vote, as is the case in companies. This means that they are a very democratic type of business. Each member has an equal say in the running of the business. No one person can dominate decision-making just because she has made a large investment.
4. Co-ops pay less tax on their profits than either sole traders or partnerships. The rate of tax that co-ops pay on their annual profits is much less than the rate of self-assessment income tax that sole traders and partners have to pay. This leaves the co-op with more after-tax profits for dividends to members and to pay for future expansion.

Disadvantages of Cooperatives

1. It is **complicated** to set up a co-op. The founders must apply for permission from the Registrar of Friendly Societies. Furthermore, every year they must send in an annual report to the Registrar.
2. A co-op must **publish** its accounts. Therefore, it is not a very confidential type of business. Customers, competitors, employees and anyone else who is interested can see the co-op's financial position in great detail and may use this information to their advantage.
3. Because each member has an equal say, there is less incentive for members to contribute more capital to the co-op. Thus, a co-op may find it difficult to raise additional capital to expand. This may be one reason why a lot of Irish co-ops changed their status and became public limited companies.

State-owned Enterprise

State-owned enterprises are businesses owned by the Irish **government** on behalf of the people of Ireland. They are run by professional managers appointed by the government. They are also called state-sponsored bodies or semi-state bodies. There are many state-owned enterprises in Ireland operating across many different business sectors.

TRANSPORT	MARKETING	TRAINING	PRODUCTION	ENERGY	SERVICES	ASSIST BUSINESS
Iarnród Éireann	Bord Bia	Solas	Bord na Móna	ESB	RTÉ	Enterprise Ireland
Bus Éireann	Bord Iascaigh Mhara	Fáilte Ireland	Coillte	Bord Gáis	VHI	IDA Ireland

You may be wondering what the Irish government is doing owning businesses, especially when there are other, more pressing problems that need solving. There are arguments in favour of and against the government owning businesses.

Advantages of State-owned Enterprises

1. State-owned enterprises create many thousands of **jobs**. This helps to reduce Ireland's unemployment rate. This means that there are less people claiming social welfare and more people earning a wage. Thus, state-owned enterprises help provide a better standard of living for people in Ireland.
2. State-owned enterprises provide **essential services**, such as postal delivery (An Post), electricity (ESB) and public transport (Bus Éireann) to all people in all parts of Ireland. Private entrepreneurs would not service the less populated parts of the country because they would not make a profit on it.
3. State-owned enterprises that make a profit (such as the ESB) pay a **dividend** to the government every year. For example, in the last ten years the ESB has paid dividends to the government to the value of €1.5 billion. The government needs these dividends to run the country and to pay back the national debt.
4. State-owned enterprises have played a major role in developing the Irish **economy**. IDA Ireland is responsible for attracting many foreign companies to set up here. These foreign companies – such as Dell, Intel, Meta, eBay and PayPal – have created thousands of quality jobs. These businesses also pay a lot of tax on their Irish profits to the Irish government.

Disadvantages of State-owned Enterprises

1. Many state-owned enterprises make a loss. They do not make enough money from sales to pay their expenses. The government has to give them **subsidies** to keep them in operation. For example, Irish Rail receives a subsidy of over €100 million every year from the government. This money would be better used improving hospitals and schools.
2. Commercial businesses (e.g. Ryanair and SuperValu) are judged by the profits they make, so they have an incentive to keep their costs down. Non-commercial state-owned enterprises (e.g. Bord Bia) are not judged by the profits they make, so there is less incentive to keep costs to a minimum. Therefore, they may be **inefficient** and waste taxpayers' money.
3. The board of directors of each state-owned enterprise is appointed by the government. The directors may therefore be appointed because of their support for a particular political party rather than because of their business expertise. They may not have the skills needed to make good decisions for the state-owned enterprise. Furthermore, the government may **interfere** with the running of the state-owned company. For example, CIÉ must obtain government permission before it can increase fares.
4. Many state-owned enterprises take out large **loans** because their owner, the government, will not or cannot (under EU competition policy rules – *see Chapter 25*) give them the money they need to expand.

Privatisation

Because of the disadvantages we have just read about, some people believe that the government should sell its state-owned enterprises and let entrepreneurs run them instead. Selling state enterprises in this way is called privatisation.

Privatisation is when the government sells a state-owned enterprise to private individuals or companies. It involves the transfer of ownership of a government-owned business to private owners.

The government can offer its shares in the state-owned enterprise for sale to the general public (as happened in the case of Eir).

The government may decide to sell its shares to a single company, which happened when the government sold its shares in the state-owned shipping company B&I Line to Irish Continental Line (now called Irish Ferries).

The Irish government has privatised a number of state-owned enterprises. For example:

In 2006, the government privatised Aer Lingus. It sold most of its shares in the national airline through the Dublin and London stock exchanges and raised €250 million in the process. In 2015, the government sold the remainder of its shares to International Airlines Group (IAG).

In 2014, Bord Gáis Energy (a division of Bord Gáis) was privatised for €1.12 billion.

Advantages of Privatisation

1. The government receives **cash** from the sale of a state-owned enterprise. This cash can be used to pay off the national debt and to improve the economy by paying for tax cuts and improving roads and infrastructure. The government received €1.12 billion from the sale of Bord Gáis Energy.
2. It **frees** the company from political control and interference. Decisions are no longer made by politicians but by real business managers whose main goal is profit. The company will be freer to develop new products and to enter new markets. This should result in increased profits.
3. It allows the company to raise **finance** for development and expansion. The company no longer has to rely on a government unwilling or unable to invest in it. It can raise money by selling shares to the public.
4. Privatisation offers people an opportunity to **invest** their money and make a decent return. Some lucky first-time investors bought shares in the newly privatised Eir at €3.90 each and sold them at a high of €4.80, making a 23% profit.

Disadvantages of Privatisation

1. Privatisation usually leads to **higher prices** and poorer **service** for consumers as the new owners rationalise the company to make it more profitable. Since Eir was privatised it has regularly increased its line-rental charges until they are now among the highest in Europe.
2. The directors of a privatised company will make decisions for the good of the company and not necessarily for the strategic interests of Ireland. Non-profit-making essential services may be discontinued by a privatised company in an effort to reduce costs.
3. The government loses control of important state assets and no longer receives the annual dividends it used to receive from state-owned enterprises before they were privatised. Instead of the government using these resources for the benefit of all people in Ireland (e.g. by lowering taxes or by providing better health and education services), a privatised company's assets and profits will fall into the hands of a few select investors.
4. The directors of the privatised company may make employees redundant in order to reduce costs and increase profits. This will lead to higher unemployment in the economy.

Franchise

Franchising is a business arrangement whereby the original owner (franchisor) of a business agrees to let other people (franchisees) use its name, logo and business idea in return for a once-off fee and an annual share of the profits.

Examples of franchises operating in Ireland include Domino's Pizza, McDonald's, Supermac's and Spar.

The franchisee must pay the franchisor a large once-off fee for permission to open up the franchise business. Every year after that, the franchisee must pay the franchisor a percentage of the profits he makes. Therefore, setting up and running a franchise is a costly business.

The franchisee must obey the rules and conditions laid down by the franchisor. These may include store layout, staff uniforms, buying raw materials from approved suppliers and so on. The franchisor does this to make sure that her business reputation is not harmed by a franchisee making a mistake.

Advantages of Franchises

In Chapter 18, we looked at the advantages of franchising for the franchisor. We now look at the advantages for the person buying a franchise (the franchisee).

1. **Reduced Risk**
   There is less risk of the business failing as it has already proved to be successful. It is a tried-and-tested formula. Customers are more readily attracted to the business because they already know the name of the business. This results in guaranteed sales.

2. **Economies of Scale**
   Because the head office bulk-buys the stock for all the franchisees, it will get a good discount on it. This means that the franchisee gets the stock at a low cost. This enables her to sell her products cheaply. This gives the franchisee a competitive advantage over her competitors.

3. **Training and Ongoing Support**
   The franchisor gives the franchisee training and guidelines in all aspects of the business, including site location, staff training, management of a business and so on. The franchisor provides ongoing support to the franchisee in relation to accounts, running the business and marketing.

4. **Advertising**
   The franchisee benefits from national advertising that she could never afford on her own. For example, in the past Domino's Pizza sponsored "Ireland's Got Talent" on Virgin Media. All Domino's franchisees benefitted from this. Very few independent pizza-delivery businesses could afford this level of sponsorship.

Disadvantages of Franchises

1. **Cost**
   The franchisee must pay the franchisor an initial fee to buy the franchise and also pay a share of the profits she makes ever year thereafter. If she set up her own independent business, these fees would not have to be paid, thus saving her a lot of money.

2. **Restrictions**

   The franchisor imposes many restrictions and conditions on the running of the business. This leaves the entrepreneur with very little room for individual flair and freedom in her own business. She may not be able to make the changes she considers are needed to respond to new competition she is facing.

3. **Damage to Image**

   The brand can be damaged by the actions of other franchisees. If any one of them makes a mistake in terms of poor quality standards or staff problems, this can give the entire brand a negative image. This means that the entrepreneur's business might suffer through no fault of her own.

Alliance

(Also see Chapter 18, page 328)

An alliance (or strategic alliance) is where two separate and independent businesses make a deal to **cooperate** with each other on a particular business project. They pool their resources and expertise to make the project a success. It is sometimes called a joint venture. There is no change in ownership as both businesses remain separate corporate entities. Working together on the business project benefits them both. They benefit from sharing the costs of the venture and **sharing** their expertise and skills to brainstorm the best possible ideas.

An example of a strategic alliance is the one between the watch company Swatch and the car manufacturer Mercedes-Benz, which worked together to make the "Smart" car (SMART stands for Swatch Mercedes Art). By working together, they could share ideas. They combined the styling and design ideas of Swatch with the technological knowledge of Mercedes-Benz to produce a radically different car. By working together, they could split the costs of designing and producing the car. Both businesses expanded as a result – Swatch now sells watches and cars, while Mercedes-Benz now sells high-end luxury cars plus a fun small car aimed at a different segment of the market.

In another example, Nestlé and Starbucks formed a strategic alliance that allows Nestlé to sell Starbucks products outside of the coffee-company's shops. The deal means Nespresso machine owners can buy Starbucks coffee branded pods for use at home.

Advantages of Alliances

1. **Cost-effective Expansion**

   An alliance is a good way to expand as the businesses involved split the costs of the venture. Furthermore, the businesses can share their equipment and other assets with each other. This means that each business can expand without having to provide all the money required. Swatch and Mercedes-Benz developed the Smart car and each company had only to contribute half the capital needed.

2. **More Successful Expansion**

   The parties to the alliance can brainstorm ideas with each other to come up with the best possible business venture. They share their knowledge and expertise with each other. For example, Swatch and Mercedes-Benz's alliance to produce the Smart car allowed engineers and designers from both companies to share ideas to produce the best possible car.

3. **New Markets**
An alliance can open up new markets to both businesses. This means that it can be used to attract new customers to each business, thereby increasing each business's sales and profits. People are loyal to the brands that they trust. When a business enters a strategic alliance, it gains the loyalty of the customers from the other alliance members, too. That makes it possible to expand its customer base.

> The alliance between Nestlé and Starbucks has resulted in higher sales for both companies.

Disadvantages of Alliances

1. **Disagreements**
The two parties to the alliance may have a disagreement if one feels that they are not getting as much out of it as the other. One company may feel the alliance is unequal as it is contributing more to it than the other company. Smaller businesses may feel that their identity is obscured by the higher profile of the bigger business in the alliance.

2. **Corporate Secrets May Be Lost**
Strategic alliances require a business to share its resources and often its knowledge and skills as well. Sharing knowledge and skills can be problematic if they involve trade secrets. The business may lose its competitive advantage if the other party benefits from its intellectual property.

Multinational Company

A multinational company (MNC) (sometimes called a transnational company) is a business with a head office in one country and branches or factories in a number of other countries. The head office controls the entire business, while the branches around the world usually carry out different jobs. Examples include Pfizer, Intel and Dell.

Advantages of Multinational Companies

1. Multinational companies create well-paid, good-quality jobs. MNCs employ 300,000 people in their Irish branches. More than 120,000 people are employed in Ireland by US multinationals alone. For example, approximately 8,000 people work in Google Ireland. Therefore, MNCs help to reduce unemployment. The wages their employees in Ireland are paid give them a higher standard of living and increased spending power in the Irish economy.
2. MNCs bring new technologies, new products and new management skills and ideas into Ireland. They train their workers in Ireland in new skills, thus increasing the skill set of the labour force in the Irish economy. This helps to make the Irish economy more modern and technologically advanced. For example, PayPal has brought the latest computer technology into Ireland and thus helped the Irish economy develop into an advanced knowledge-based economy.
3. MNCs bring competition into the Irish market. They may offer better quality and lower prices when competing with indigenous Irish firms. This is good for Irish consumers because it gives them more choice, lower prices and better quality. For example, Lidl and ALDI have increased competition in the Irish grocery market, leading to lower prices for all consumers in Ireland.

4. MNCs pay corporation tax on the profits they make here. They also generate value added tax (VAT) on all the products they sell here. MNCs also generate employees' PAYE (Pay As You Earn) taxes for the government and pay contributions to their employees' PRSI (Pay Related Social Insurance). Therefore, they generate a huge amount of tax revenue for the government, which it can use to invest in improving the Irish economy.
5. MNCs operating in Ireland may buy their raw materials and other supplies from local Irish businesses. Thus, they help many Irish businesses to increase their sales and profits.

> Tesco, Lidl and ALDI buy a lot of vegetables, milk and meat from Irish farmers, which helps the primary sector of the Irish economy to flourish.

Disadvantages of Multinational Companies

1. A number of multinational companies have taken the grants and low taxes offered by Ireland, then closed down with very little notice and left Ireland to go to low-wage economies. This leads to higher unemployment in Ireland.

> In 2006, Fruit of the Loom, a US multinational, closed down its factory in Donegal to move to Morocco, where wages are cheaper.

2. Indigenous Irish businesses face a lot of competition from these foreign businesses. The economies of scale they enjoy mean that multinationals can make and sell their products very cheaply. Their vast resources mean they can afford to invest in research and development (R&D) to develop new and improved products. This level of competition may force some Irish companies out of business if they are not as efficient and inventive as their foreign counterparts.

> Dunnes Stores faces major competition from Lidl and ALDI (both German).

3. Multinational companies often repatriate most of their profits. This means that they send most of the profits they make in Ireland back home. So the wealth they make in Ireland does not necessarily stay in Ireland to benefit the Irish economy.
4. Some multinational businesses set up in Ireland to take advantage of its attractive tax laws. Some do so to avoid paying tax, and It is alleged that some do not pay their fair share of taxes to the government – therefore, these MNCs do not benefit Ireland as much as they should. However, in 2021, 130 countries (including Ireland) signed up to a plan to reform international tax rules to ensure that multinationals pay a fair share of tax wherever they operate. This is predicted to have a negative impact on Ireland's economy.
5. Ireland's reliance on a small number of major MNCs leaves the Irish economy vulnerable. The big tech and pharma MNCs are responsible for huge amounts of economic activity, productivity growth and tax revenue. One third of all Irish exports come from just five MNCs. Ten MNCs pay half of all the corporation tax collected in Ireland. If they were ever to leave, Ireland would suffer a major decline in economic performance, wage levels and standard of living.

Indigenous Firm

Indigenous firms are businesses set up, owned and managed by people based in Ireland. Their main place of business is Ireland. They make their products in Ireland and may sell them here also. And they may export their products from Ireland to other countries.

An example of an indigenous firm is the fast-food restaurant chain Supermac's. Another example is Pat the Baker, an indigenous bakery located in Granard, County Longford. It employs over 400 people.

Advantages of Indigenous Firms

1. The vast majority of jobs in Ireland are created by indigenous businesses. They tend to be a lot more labour-intensive than foreign businesses operating here. This means they use more workers than machines. Therefore, indigenous businesses create hundreds of thousands of **jobs** for people in Ireland. This leads to lower unemployment and improves the standard of living of many people.
2. Indigenous firms are **loyal** to Ireland because they are set up by people living here. They tend not to leave Ireland to set up operations elsewhere when the economy goes through a bad patch or simply to reduce costs.
3. They foster and encourage an **enterprise culture** in Ireland. When people in Ireland see successful indigenous businesses, it inspires them to set up their own businesses. This leads to more and more businesses in the Irish economy and thus greater economic growth.
4. They keep their profits in Ireland. They may reinvest their profits to expand their businesses in Ireland or lodge their profits in Irish banks, from where they can be loaned out to help other entrepreneurs living in Ireland.

Changing Trends in Ownership and Structure

We have now looked at the different types of business organisation in Ireland. Like everything else in Ireland, business organisations have undergone and continue to experience major changes. Among the main changes taking place in business ownership in Ireland are:

1. **Increasing Popularity of Franchises**
   There has been a large increase in the number of people setting up franchises in Ireland. Examples include Supermac's, Domino's Pizza and McDonald's. Some people wishing to set up their own business here have opted for franchising because there is a lower risk of this type of business failing.

2. **High-tech Multinational Companies**
   In recent years, Ireland has succeeded in attracting many high-tech computer multinationals. Facebook has set up its international headquarters in Dublin. LinkedIn, Airbnb, PayPal, eBay, Google and Microsoft have all set up branches in Ireland. These multinationals

are attracted by Ireland's low rate of corporation tax, our membership of the EU, our highly educated graduates and our fluency in English. They have made a very positive impact on the Irish economy by creating thousands of well-paid jobs, by buying materials from Irish businesses and by paying taxes to the Irish government.

3. **Privatisation of State-owned Enterprises**

In recent years the Irish government has sold off more and more of the companies it owned to private owners. In 2014, the government privatised Bord Gáis Energy. In 2015, it sold its remaining stake in Aer Lingus to International Airlines Group (IAG).

4. **Cooperatives Becoming Public Limited Companies**

Many cooperatives have changed their organisational structure and become public limited companies. Examples include Kerry Co-op, which is now Kerry PLC, and Avonmore Co-op and Waterford Co-op, which merged to form Glanbia PLC.

Why Businesses Change Their Organisational Structure Over Time

Many businesses change their structure over time. For example, a sole trader might convert her business to a private limited company. There are a number of reasons why a business changes its structure:

1. **To Raise Capital**

A major reason why a business would change its structure is the ability to get its hands on more finance. With more people able to invest in the business and its credit rating thus improved, the more attractive it becomes when the entrepreneur needs more money to fund her business.

A private limited company, a state-owned enterprise or a cooperative might change its structure to a public limited company because this enables them to sell their shares on the stock exchange. The money raised from selling shares in this way can be used to finance further expansion of the business.

> Kerry Co-op became a public limited company so that it could sell shares to the public to raise money. It used this money to expand the business.

2. **To Lower the Risk Faced by the Owners**

Businesses may change their structure so as to reduce the risk the owners face. Certain businesses give the owners the advantage of limited liability. This means that if a business goes bankrupt, all the owner would lose is the money she invested in the business. All her other private assets would be safe.

A sole trader has unlimited liability. She is personally liable for all the debts of her business. But by changing her organisational structure to that of a private limited company, she acquires **limited liability** and is no longer in danger of losing her home and other private assets if the business goes bankrupt.

3. **To Increase Sales and Profits**

If a business forms an **alliance** with another business, this can give it the ability to sell more products.

> The alliance between Swatch and Mercedes-Benz to produce the Smart car has helped both businesses to increase their sales. Swatch now sells watches and cars. Mercedes-Benz now sells high-end luxury cars plus a fun small car aimed at a different segment of the market.

If a business changes its structure to become a public limited company, it will enjoy increased publicity. Public limited companies are constantly written about in newspapers and referred to on radio and TV programmes. This gives the new business a better image and reputation, which will help it increase sales.

4. To Acquire Skills

A business may change its structure so as to acquire new skills. For example, a sole trader might enter into a partnership with others who have the skills she needs to expand and improve her business.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **four** different types of business organisations.
2. Explain the term "unlimited liability".
3. Outline **two** disadvantages of sole trader as a type of business organisation.
4. What type of business organisation is a partnership?
5. List **three** reasons why a sole trader might expand to become a partnership.
6. What is a public limited company? Give **two** examples.
7. Outline **two** disadvantages of a public limited company as a type of business organisation.
8. Identify **two** differences between a public limited company and a private limited company.
9. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. CEO
2. Shareholders
3. Board of Directors
4. Auditor
5. Company Secretary
6. Company Chairperson

Column 2: Explanations
(a) Invests capital in the company in return for shares in it
(b) Acts as a figurehead leader for the company
(c) Prepares the company's financial accounts
(d) Sends out notice for and takes minutes at all company meetings
(e) Chief Executive Officer
(f) Elected by shareholders to run the company for them
(g) Checks the company's accounts to make sure that they are correct

1	2	3	4	5	6

10. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A private limited company can have only one shareholder.	
B	A public limited company can have only one shareholder.	
C	The rules for forming companies are contained in the Companies Formation Act, 2014.	
D	Companies pay a higher percentage of tax on their business profits than sole traders.	
E	The accounts of a company are more confidential than those of a sole trader.	

11. Explain what is meant by a cooperative and give **two** examples of a cooperative.
12. List **four** state-owned companies.
13. Define "franchising".
14. Outline **two** advantages of franchising as a type of business organisation.
15. Explain what is meant by a business alliance and illustrate your answer with an example.
16. Outline **two** advantages of an alliance as a type of business organisation.
17. Explain what is meant by a multinational company.
18. Outline **two** advantages of indigenous firms for Ireland.

EXAM SECTION 2 – LONG QUESTIONS

1. Explain **three** reasons why you would recommend that a friend set up her business as a sole trader. **(15 marks)**
2. Your friend has been invited to set up a business as a partnership with four other people. Outline **three** reasons why you think he should not do this. **(15 marks)**
3. Outline **two** differences between a sole trader and a private limited company. **(10 marks)**
4. Name the law that sets out the rules for setting up a private limited company. Describe the steps involved in setting up a private limited company. **(20 marks)**
5. Describe the advantages of a public limited company. **(15 marks)**
6. Explain the role of the company secretary and the auditor in a company. **(20 marks)**
7. Outline **two** advantages and two disadvantages of cooperatives. **(20 marks)**
8. Outline **four** advantages of state-owned enterprises for Ireland. **(20 marks)**
9. Explain, using examples, the term "privatisation". **(10 marks)**
10. Outline **three** reasons for privatisation. **(15 marks)**
11. Define the term "franchising". **(10 marks)**
12. Outline **two** disadvantages of franchising for a person wishing to set up a business. **(10 marks)**
13. Explain, using examples, the term "business alliance". **(15 marks)**
14. Describe **two** differences between multinational and indigenous businesses. **(10 marks)**
15. Describe **three** current trends taking place in business ownership in Ireland. **(15 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. A sole trader is a popular choice of business organisation in Ireland.
   List **three** other business organisations and explain any **one** of them.
2. Complete this sentence: Limited liability helps businesses because it…
3. Illustrate your understanding of the term "ultra vires".
4. What is a public limited company? Name **two** public limited companies.
5. Outline **two** differences between a cooperative and a public limited company.
6. What is a state-owned enterprise? Name **two** state-owned enterprises.
7. Distinguish between the terms "private limited company" and "privatisation".
8. Explain the term "franchising".
9. Complete this sentence: An alliance involves…
10. Illustrate your understanding of the term "multinational company".
11. What is an indigenous firm? Name **two** indigenous firms.
12. The following table shows **three** types of business organisation and **four** features.
    For each feature, tick (✓) the type of business organisation that is most likely to match that feature.

	Sole Trader	Private Limited Company	Co-op
Unlimited liability			
No maximum number of owners			
No official permission needed to set up the business			
Financial accounts are confidential			

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Erica Butler

After graduating from college with a diploma in computers, Erica Butler started working for a large multinational computer company called Replos, which makes computer parts in its factory in a town in the south of Ireland and employs almost half the people in the town. Thanks to her hard work in Replos, Erica now owns her own home, a new car and a holiday cottage on the coast.

Erica has seen the town transformed since Replos came. There are new restaurants, shops and houses. A number of factories have opened to supply Replos with materials. A new motorway makes the town more accessible, and locals believe it will encourage further businesses to set up there.

The success of other businesses in the town inspired Erica to leave Replos six months ago to set up her own computer firm as a sole trader. The local bank loaned her most of the money she needed because it was very impressed with all the experience and skills she had gained from working in Replos. However, Erica is finding it hard to cope with the demands of running a business. She is unsure how to go about marketing her products. She is running seriously short of money. The business needs a capital injection, but the bank is unwilling to lend her any more. The stress of this combined with the long hours is making her question her choice.

(A) Recommend, with reasons, a more suitable type of business organisation for Erica. **(20 marks)**

(B) Evaluate the importance of multinational companies, such as Replos, for Ireland. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Analyse the benefits and drawbacks of a sole trader as a business start-up option. **(20 marks)**
2. Contrast a partnership and a private limited company as types of business organisation. **(20 marks)**
3. Describe the stages in the formation of a designated activity company. **(20 marks)**
4. Discuss why many Irish cooperatives have expanded to become public limited companies. **(20 marks)**
5. Differentiate between the role of shareholders and directors in a company. **(20 marks)**
6. Discuss the arguments for and against state-owned companies. Use examples to illustrate your answer. **(30 marks)**
7. Evaluate the impact (positive and negative) of privatisation on the Irish economy. Use examples where appropriate. **(30 marks)**
8. Evaluate (benefits and risks) franchising as a type of business organisation for a new business venture. **(20 marks)**
9. Discuss the opportunities and challenges of a cooperative as a form of business ownership. **(20 marks)**
10. Contrast the importance of multinational and indigenous firms to Ireland. **(20 marks)**
11. Discuss the changing trends in business ownership and structure in the Irish economy. **(25 marks)**
12. Explain the reasons why businesses change their organisational structure over time. Use relevant examples to illustrate your answer. **(25 marks)**

NOTES

UNIT 6

CHAPTER 20 CATEGORIES OF INDUSTRY

LEARNING OUTCOMES

In this chapter, we will look at:

- The three main parts of the Irish economy.
- The importance of each part to the economy.
- The main changes taking place in each part of the economy.

In this chapter and the next one, we look at the Irish economy. The economy can be divided into three different sectors, or **categories of industry**, as follows:

- Primary sector: extractive industries.
- Secondary sector: manufacturing and construction industries.
- Tertiary sector: services industry.

Primary Sector

The primary sector of the economy consists of all those businesses that are engaged in taking raw materials from nature. It is also called the extractive industries. In Ireland, the **extractive** or primary industries include:

- Agriculture: farmers take potatoes, carrots and so on from the ground.
- Fishing: fishermen/women catch cod, ray and so on from the sea.
- Forestry: foresters cut down trees.
- Mining: miners dig zinc and so on from the ground.
- Energy: extracting the oil and gas deposits from around the country; creating energy by using the power of the wind and the sun.

Importance of Primary Industry to the Economy

- The primary sector creates a lot of **employment** in the economy. Many thousands of people in Ireland work in agriculture, fishing, forestry, mining and energy. These jobs mean fewer people claiming welfare and more people paying taxes on their wages. This gives the government more money to spend on improving the economy by reducing taxes, increasing grants and improving infrastructure.
- The primary sector is a major consumer of Irish products, thus pumping money into the economy. Farmers buy a huge amount of farm machinery, fertilisers, chemicals and so on. Those engaged in fishing buy boats and nets. Those working in forestry, mining and energy buy lots of equipment. Therefore, the primary sector increases the profits of Irish businesses involved in selling these products.
- Primary/extractive industries **export** massive amounts of raw materials from Ireland, thus improving Ireland's balance of payments (*see Chapter 24*). This brings lots of money into the country. This money makes farmers, miners and those involved in fishing, forestry and energy wealthier and the country richer.
- Some primary/extractive industries (farming and fishing) provide **food** for the country. This reduces our need to import food from abroad, thus improving our balance of payments as there is less money going out of the country on foreign imports.

Changing Trends in Primary/Extractive Industry

Under the terms of the EU–UK trade deal negotiated in 2020, the amount of fish that EU fishermen/women can catch in UK waters has been reduced by 25% from pre-Brexit times. This reduces the amount of fish that fishermen/women based in Ireland can catch just beyond our own waters and may lead to lower sales and profits as a result.

Extracting our own natural resources is helping Ireland to reduce its dependence on imported oil. **Wind farms** are also becoming increasingly common in Ireland. They harvest the wind and turn it into electricity. A third of Ireland's electricity now comes from wind power. The country's **natural-gas** reserves off the south and west coasts provide some of the energy we need.

Ireland has the lowest amount of **forests** of all European countries (only 11% of Ireland is forested). The Irish government wants to increase the number of forests in the country. To encourage this, it established "Project Woodland", which includes measures to increase the planting of trees in Ireland.

A major trend in the primary sector is consumers' concerns about the quality of the food they eat. The demand for organic foods is increasing and many farmers now produce **organic** foods to cater to this market. There has been a big increase in the number of farmers' markets popping up all over the country. Irish farmers are thus capitalising on Ireland's green image.

Secondary Sector

The secondary sector of the Irish economy consists of the manufacturing and construction industries.

Manufacturing Industry

Manufacturing buys the output of the primary sector and makes it into a totally different finished product. For example, Tayto is part of the manufacturing industry. It buys potatoes from farmers and uses them to make crisps. A carpenter buys wood from a forest and uses it to make furniture.

The manufacturing industry in Ireland includes:

- **Agribusinesses**: these take farm produce and transform it into food for consumers. Glanbia PLC buys milk from farmers and uses it to make Yoplait yoghurt.
- **Indigenous firms**: these are Irish businesses set up by Irish people that make their products here in Ireland.

> Pat the Baker is an indigenous firm that makes bread in Granard, County Longford.

- **Multinational companies**: these are foreign businesses that set up factories in Ireland to manufacture their products here.

> Pfizer is a multinational company that manufactures pharmaceuticals in Ireland.

Importance of Manufacturing Industry to the Economy

1. Manufacturing creates a lot of **employment** in the economy. Many thousands of people in Ireland work in factories. These jobs result in fewer people claiming welfare and more people paying taxes on their wages. This gives the government more money to spend on improving the economy by reducing taxes, increasing grants and improving infrastructure.
2. Ireland **exports** a lot of the products that are manufactured here, thus improving Ireland's balance of payments. This means that manufacturing brings lots of money into the country. This money makes Irish manufacturers wealthier and the country richer. Our main manufacturing exports are pharmaceuticals, chemicals and computers.
3. Manufacturing is a major consumer of raw materials. Manufacturers buy the output of the primary industry and turn it into finished goods to sell. This provides a lot of income to those involved in the primary/extractive industry.

> Tayto buys all its potatoes from Irish farmers. It is therefore a major customer of Irish farmers and provides many of them with an income.

Changing Trends in Manufacturing Industry

1. Competition from **low-wage economies** that can manufacture products much more cheaply than here in Ireland has caused many manufacturers here to close down. It has also lead to some manufacturers closing their factories in Ireland to move them to these low-wage economies.

> In 2021, Sudocrem closed its factory in Baldoyle, County Dublin, where it had operated since the 1940s, and moved to Bulgaria.

2. Manufacturing industry is becoming more capital-intensive. This means that it uses more and more machines (e.g. computer-aided design, computer-aided manufacturing, robots, and so on (*see Chapter 10*)) and fewer employees. Therefore, fewer people in Ireland are now employed in manufacturing.
3. A lot of **multinational** manufacturing businesses have set up in Ireland to make their products here in order to gain access to EU markets and to avail of Ireland's low corporation tax rate and our educated workforce.

> Dell makes computers in Limerick, while Intel manufactures computer parts in its factory in Leixlip, County Kildare.

Construction Industry

The construction industry consists of all those businesses involved in designing, building and maintaining the built infrastructure of the country. It includes those involved in building houses, schools, roads, factories, bridges and so on.

Importance of Construction Industry to the Economy

1. The construction industry is a labour-intensive industry. This means that it uses more people than machines. Therefore, the construction industry provides thousands of **jobs** in Ireland. Construction workers pay taxes on their wages and this gives the government more money, so it can improve Ireland's economy by reducing taxes, increasing grants and improving infrastructure.
2. Construction is a major consumer in the Irish economy. Builders buy a huge amount of sand, gravel and wood from the primary sector. Therefore, construction helps to increase the sales and profits of Irish businesses involved in selling these products.
3. The construction industry builds the **infrastructure** (such as roads, airports, ports and so on) that is essential for Irish businesses to transport their products quickly and cheaply.

Changing Trends in Construction Industry

1. The decline in the construction sector during the economic crisis bottomed out in 2013, and since 2014 the sector has experienced growth again. As a result, the industry is now experiencing a shortage of skilled workers in certain key trades.
2. In 2018, the government launched "Project Ireland 2040". It is a plan that will involve spending €115 billion on improving infrastructure in Ireland. Projects include building over 100,000 new social houses, a metro system for Dublin (linking Sandyford to Swords) and a motorway between Cork and Limerick. This expenditure will provide many contracts for construction firms, which will increase their profits.

Tertiary Sector

The tertiary sector comprises all those businesses that provide a **service** to consumers and to other businesses. It is also known as the services sector. These businesses do not take things from nature or make a physical product.

Lawyers operate in the services sector. They provide a legal service. They deliver expert legal advice to their clients and represent them in court.

Importance of Services Industry to the Economy

1. The services industry is by far the biggest employer of people in Ireland. The huge number of **jobs** it provides leads to lower unemployment in the economy. Employees pay taxes on their wages and this gives the government more money, so it can improve Ireland's economy by reducing taxes, increasing grants and improving infrastructure.

2. The services industry **exports** billions of euro worth of services (especially software and financial services) from Ireland, thus improving our balance of payments. This means that the tertiary sector brings lots of money into the country. This money makes service providers in Ireland wealthier and the country richer.
3. A well-developed service industry is essential to attract multinational companies to Ireland. Ireland's telecommunications and transport services play a vital role in this.

Changing Trends in Services Industry

1. Retailers in town centres are facing a decrease in footfall because of competition from large suburban shopping centres (Dundrum in Dublin, Mahon Point Shopping Centre and Mahon Retail Park in Cork, and so on). Furthermore, expensive parking tickets, fines and the threat of clamping are driving people out of town centres, where many service-sector businesses operate.
2. There has been huge growth in the number and popularity of discount retailers operating in Ireland, and this is set to continue.

> Since launching in Ireland in September 2011, Dealz has gone on to open over 60 stores here and employs over 1,500 people in Ireland.
> Lidl and ALDI control over 22% of the Irish grocery market.

3. Ireland has a thriving financial-services sector. The biggest banks and insurance companies in the world have located in the International Financial Services Centre (IFSC) in Dublin. Thousands of people work in the IFSC and it deals with investments worth over €500 billion.
4. The minimum wage has continued to increase in recent years. This increases costs and lowers profits for businesses in the services sector.
5. Tourism is the largest employment sector in the economy. It had experienced impressive growth after the recession in 2008, with more and more international visitors coming to Ireland. However, the Covid-19 pandemic decimated the industry in 2020 as the number of foreign tourists coming here reduced dramatically. When the economy reopened, the sector experienced major staff shortages.

Factors of Production

We saw that part of the secondary sector consists of manufacturing. Manufacturers take raw materials and convert them into a totally different finished product. In business, we say that a manufacturer uses the four factors of production to make that product. The **factors of production** are the four essential resources that entrepreneurs combine to make a product or service: land, labour, capital and enterprise.

Land

Land refers to physical land and other natural resources used to make the products.

> Tayto use potatoes to make crisps. The potatoes are "land".
> Cadbury uses milk to make chocolate. The milk is "land".

Labour

Labour refers to the human effort (both physical and mental) used to make products.

> A cake factory employs workers to make cakes. The workers are the "labour".

Capital

Capital refers to the human-made goods that are used in the production process, such as buildings, machinery, equipment, tools and so on.

A factory making cakes uses ovens to bake the cakes. The ovens are the "capital".
Tayto uses packing machines to pack its crisps into bags. The machines are the "capital".

Enterprise

Enterprise is the skill of combining all these factors together to make a product. It involves an entrepreneur thinking of an idea, combining the factors of production and taking a risk to set up a business to make a product.

When Joe Murphy spotted a market for flavoured crisps in Ireland and set up Tayto in 1954, he provided the "enterprise".

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **four** primary industries in the Irish economy.
2. Outline **two** reasons why agriculture is important for the Irish economy.
3. What is an indigenous firm? Name an indigenous firm involved in manufacturing.
4. List **two** reasons why manufacturing is important to the Irish economy.
5. Distinguish between primary and secondary industries.
6. Identify **three** businesses in the service industry.
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. IFSC
2. Tertiary industry
3. Land
4. Labour
5. Capital
6. Enterprise

Column 2: Explanations
(a) Natural resources that are used to make a product
(b) Involves an entrepreneur combining the factors of production to make a product
(c) Human-made goods, such as machinery, that are used in the production of products
(d) Services industry
(e) International Financial Services Centre
(f) Limit on the amount of food that a farmer can produce
(g) Human effort involved in making products

1	2	3	4	5	6

8. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	A farmer operates in the primary sector of the economy.	
B	Tayto is an example of a business involved in the manufacturing industry.	
C	A hairdresser works in the secondary sector.	
D	A miner digging for coal is an example of a manufacturing industry.	
E	Taxi drivers operate in the tertiary sector.	

9. Indicate, by means of a tick (✓), the category of industry to which each business belongs.

	Primary	Secondary	Services
Cadbury			
A cinema			
Dublin Bus			
A farmer growing potatoes			
Aer Lingus			

10. Indicate, by means of a tick (✓), the factor of production to which each item belongs.

	Land	Labour	Capital	Enterprise
Water				
Employees				
Bill Gates				
A factory				
A photocopier				

EXAM SECTION 2 – LONG QUESTIONS

1. Outline the importance of the primary sector to the Irish economy. **(15 marks)**
2. Explain, using **two** examples, what is meant by the secondary sector of the economy. **(15 marks)**
3. List **two** disadvantages of a downturn in the construction industry for the Irish economy. **(10 marks)**
4. Outline **two** changing trends taking place in Irish manufacturing. **(10 marks)**
5. Describe **three** benefits of the services sector for the Irish economy. **(15 marks)**
6. Describe the changes taking place in the Irish services sector. **(15 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "primary sector of the economy".
2. Name a business involved in manufacturing.
   Explain **two** reasons why manufacturing is important to Ireland.
3. Illustrate your understanding of the term "agribusiness".
4. Explain the term "construction industry". Illustrate its impact on the development of the Irish economy.
5. Distinguish between the secondary and tertiary sectors of the economy.
6. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Labour intensive
2. Capital intensive
3. Infrastructure
4. Land
5. Factors of Production

Column 2: Explanations
(a) A limit placed on the amount that can be produced
(b) The roads, railways, bridges and so on that are required for an industrial economy to function
(c) An industry that uses more workers than machines
(d) An industry that uses more machines than workers
(e) Natural resources used in the production process
(f) Four resources that are combined to make a product

1	2	3	4	5

7. Indicate, by means of a tick (✓), the category of industry to which each business belongs.

	Primary	Secondary	Services
An oil exploration company drilling for oil			
A carpenter making a chair			
An insurance company			
A coffee shop			
A factory making jeans			

8. Complete this sentence: In the context of production, land means…
9. Distinguish between labour and capital as factors of production.
10. Complete this sentence: As a factor of production, enterprise involves…

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

John Connolly

John Connolly graduated with a degree in agricultural science in 2005. He spent a number of years working in farming abroad before returning to Ireland to buy and run his own farm. With the help of a government grant, he bought a small farm in the mid-west.

John is a mixed farmer. He grows crops and rears cattle for dairy and beef purposes. His business has proved fairly successful in recent years. He has been so busy that he has had to hire a number of local people to work for him. He sells most of his milk to the local dairy and the rest of his produce to a food-manufacturing company located in Belgium.

John faces some problems in his business, though. Competition from other EU farmers is fierce and John is often shocked at the amount of foreign milk and vegetables that he sees for sale in the supermarket. Things are tough in farming and John knows he could not survive without ongoing grants and payments from the Irish government. Without this government money, he does not know how he can buy all the farm equipment and fertilisers and chemicals his business requires.

Discuss the importance of businesses in the primary sector, like John's, to the Irish economy. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Describe the categories of industry in the Irish economy. **(20 marks)**
2. Evaluate the impact on Ireland of a downturn in the primary sector. **(20 marks)**
3. Analyse how changing trends are impacting on the primary sector of the Irish economy. **(20 marks)**
4. Compare the importance of the construction and manufacturing sectors to the Irish economy. **(20 marks)**
5. Describe important changes taking place in the secondary sector of the Irish economy. **(20 marks)**
6. What is the services sector? Explain its role in the development of the Irish economy. **(20 marks)**
7. Evaluate the importance of the International Financial Services Centre to the Irish economy. **(10 marks)**
8. Discuss **three** changes taking place in Ireland's tertiary sector. **(15 marks)**
9. Describe, for a business of your choice, the factors of production it uses to make its product or service. **(20 marks)**

NOTES

UNIT 6

CHAPTER 21 THE IRISH ECONOMY

LEARNING OUTCOMES

In this chapter, we will look at:

- How various elements in the economy of Ireland impact on Irish businesses.
- How businesses impact on the Irish economy.
- What the Irish government does to help business and to control them.
- What the Irish government does to help people in the "labour force".

In Chapter 20, we saw that there are three categories of industry in the Irish economy. In this chapter, we look at what state the Irish economy is in and how that impacts on business people.

Impact of Economic Variables on Business

Economies tend to go through two main cycles: economic growth and recession.

A **recession** is defined as a period of significant economic decline lasting for over six months. It is characterised by a fall in sales, production and employment in the economy. It leads to lower living standards for people in Ireland.

Economic growth is defined as an increase in the value of goods and services produced in the economy over time. Economic growth is good because it creates new jobs and leads to higher living standards for people in Ireland.

The state of Ireland's economy can be judged under a number of headings:

1. Inflation
2. Interest rates
3. Unemployment
4. Levels of tax in the country
5. Exchange rates

Each one of these affects business in a different way.

Economic Variable 1: Inflation

Inflation is the annual percentage increase in the level of prices in the economy. It is measured using the Consumer Price Index, whereby the price of an average family's shopping is checked every month. When the price of that shopping goes up, this is called inflation.

When inflation is high and prices are increasing in the economy, this is bad for business because:

1. Employees ask for higher wages because they cannot afford the higher prices in shops. They tell their employer that they cannot live on the money she pays them. If the business gives its employees the pay rise they seek, this increases its costs and lowers its profits. If the business refuses the pay rise, the employees may go on strike, leading to bad industrial relations.
2. Inflation makes products more expensive. Consumers may not be able to afford the higher prices and therefore will buy less. This leads to lower sales for businesses. Thus, inflation leads to lower demand for goods and services in the economy.
3. Inflation means that the cost of everything the business buys increases. The stock, equipment and so on that the business purchases become more expensive. These cost increases lowers the business's profits.

Ireland's current rate of inflation is:	________________ **%**

Economic Variable 2: Interest Rates

Interest rates are the cost of borrowing money expressed as a **percentage** of the amount borrowed. Interest rates in Ireland are determined by the European Central Bank.

When interest rates rise, so too do loan repayments, with the following consequences for business:

1. Many businesses will not be able to afford the higher repayments on loans. Therefore, they will not borrow money to expand and develop. Thus, higher interest rates lead to less business expansion in the economy.
2. Higher interest rates mean that consumers' monthly mortgage repayments increase. This leaves them with less disposable income to spend on products and services. Thus, higher interest rates lead to less demand in the economy, resulting in lower sales and profits for businesses.
3. When interest rates increase, this causes the repayments on a business's existing loans to increase. This increases the business's costs and lowers its profits.

Economic Variable 3: Unemployment

The rate of unemployment is the percentage of the labour force (all the people in Ireland who work or who could work) that does not have a job. Increasing unemployment affects Irish business in the following ways:

1. Unemployed people receive a relatively small amount of money from the government in welfare payments. The amount is almost certainly less than they earned when they were working. Thus, they have a much lower amount of disposable income. They cannot afford to buy as much as they did previously. Therefore, higher unemployment leads to less demand in the economy and lower sales for Irish businesses.

2. When unemployment is increasing, there are more people looking for fewer jobs. This makes it easier for businesses to find workers for job vacancies. Furthermore, people will be willing to work for lower wages than before as they are desperate for work. This reduces businesses' costs, allowing them to reduce their prices and thus compete with foreign competition.
3. The more unemployed people there are, the more money the government has to pay out to them in social welfare benefits. This forces the government to increase taxes to be able to afford these extra payments. Higher taxes taken from businesses reduce their profits, leaving them with less money to use to pay for business expansion.
4. Higher levels of unemployment lead to emigration as people go abroad to get jobs. This means that Ireland's brightest and best graduates leave the country. This is known as the "brain drain". It leaves the Irish economy with a lack of professionals.

Ireland's current rate of unemployment is:	______________ %

Economic Variable 4: Taxation

Tax is the **compulsory payment** that must be made to the government in return for the benefits of living or doing business in Ireland.

When taxes are increasing in the economy, this is bad for business because:

1. Higher business taxes such as higher self-assessment income tax and higher corporation tax result in businesses having to give more of their profits away to the government. This reduces the amount of profits they have left to spend on developing and expanding their businesses.
2. Higher value added tax (VAT) added to the price of products sold in shops makes them more expensive. Not all consumers can afford the higher prices and so buy less. Businesses' sales and profits fall.
3. Higher employee payroll taxes, such as Pay as You Earn (PAYE), Pay Related Social Insurance (PRSI) and Universal Social Charge (USC), taken from employees' wages leave them with less disposable income. This discourages them from doing overtime as they feel that, after tax, the net wage they receive is not worth the extra hours. This can leave businesses short of workers during busy periods.
4. The Irish government has committed to increasing carbon taxes every year until 2030. Higher carbon taxes increase the price of energy that a business buys, thus increasing its costs.

Economic Variable 5: Exchange Rates

The exchange rate for the euro tells you how much €1 is worth in terms of another currency. In other words, it tells you how much of a foreign currency you will get for €1.

You convert a euro into another currency by multiplying by the exchange rate.

An Irish business sells whiskey for €100 a bottle.

When it sells its whiskey in the US, the business must convert the price into US dollars. This is done by multiplying the €100 price by the rate of exchange.

If the rate of exchange is €1 = $1.20, the whiskey sells in the US for $120 a bottle.

If the rate of exchange increases to €1 = $1.35, the whiskey will now sell for $135 a bottle.

Because the whiskey is now dearer in the US, the Irish business will sell less of it in the US.

The exchange rate for the euro impacts on Irish business in a number of ways:

1. When the euro **increases** in value, the price of Irish products sold in non-eurozone countries (such as the US and the UK) **increases**. The higher price causes consumers in these countries to buy less Irish goods. This means that Irish exporters' sales and profits fall.
2. When the euro **increases** in value, the price of non-eurozone (such as American and British) goods sold in Ireland **decreases**. This means that people in Ireland buy more of these non-eurozone goods and less Irish goods. This leads to lower sales and profits for Irish businesses.
3. When the euro **increases** in value, the price of non-eurozone (such as American and British) goods sold in Ireland **decreases**. This means that Irish businesses pay less for non-eurozone imports. For example, an Irish restaurant will pay less for the New Zealand lamb and Californian wines it buys. This lowers costs for Irish businesses that import from outside the eurozone.

Impact of Business on the Economy

Not only does the state of the Irish economy affect Irish business, but business affects the economy. Business can have a positive and a negative impact on the Irish economy.

Positive Impact of Business on the Economy

1. Businesses **create jobs** for people. This leads to lower unemployment in the economy. Furthermore, a business creates jobs indirectly. By giving its suppliers contracts, a business helps to maintain and create jobs in these supplier firms, too.

   Dunnes Stores alone employs around 10,000 people in Ireland.

2. Businesses **pay tax** to the government on their profits (corporation tax if the business is a company or self-assessment tax if the business is a sole trader or partnership). Furthermore, the government receives VAT from their sales and PAYE/PRSI/USC from their employees' wages. This gives the government a lot more money to spend on improving the economy by increasing grants, improving roads and lowering taxes.
3. Businesses **buy** materials and services from other businesses, such as suppliers and service providers. This leads to the creation of more businesses to supply them and, hence, more wealth in the economy.

   Tayto buys a huge amount of potatoes from farmers in Ireland, thus increasing farmers' sales and profits.

4. Competition between businesses forces them to keep **prices low**. Low prices lead to low inflation in the economy.

> Ryanair is an example of a business helping to lower inflation. The competition that it created in the Irish airline industry means that flights are cheaper now than they were around 30 years ago. Similarly, Dunnes Stores and SuperValu have had to keep prices low to compete with Lidl and ALDI.

5. Businesses **create wealth** for the entrepreneur (profits) and the employees (wages). Entrepreneurs and employees spend their wealth buying from other businesses (pubs, restaurants, hotels, department stores and so on). This leads to more businesses and more wealth in the economy.

Negative Impact of Business on the Economy

1. To increase profits, businesses may **increase prices**. For example, many hotels increase their prices hugely when there is a major event happening in the town they are located in and airlines increase their baggage charges during the summer months. Price increases like this lead to higher inflation in the economy.
2. To keep costs to a minimum, some businesses might **damage the environment** by failing to dispose of their waste properly. This can damage our tourism and food industries, leading to lower exports in the Irish economy because people will not buy Irish food or holiday here if Ireland is considered to be polluted.
3. Successful businesses lead to **pressure on infrastructure**.

> Traffic jams on the M50 motorway around Dublin may be due in part to the number of shopping centres located just off the motorway. This slows down the transporting of goods and increases the costs of doing business.

4. **Competition** between businesses can lead to firms having to close down. Many Irish factories have closed down because they cannot compete with the prices that low-wage economies can sell their products for. This causes an increase in unemployment, which leads to lower tax revenue and increased social welfare payments by the government. The result is that the government has less money to spend on improving the economy.

Government's Role in Creating a Suitable Climate for Business

We have seen in this chapter that business is extremely important to Ireland. It creates millions of jobs for people here and generates a lot of tax revenue for the government to spend on essential services, such as schools, hospitals, roads and gardaí. Because the government knows how important business is, it tries to create the right climate for business to flourish. The government tries to help business in the following ways:

1. Government Expenditure

Government expenditure is the money that the **state spends** every year. It is divided into current spending on the day-to-day costs of running the country and capital spending on the country's infrastructure. This expenditure helps business as follows:

- The government buys billions of euro worth of products and services from businesses every year (e.g. garda uniforms and school desks). This leads to increased sales and profits for business enterprises in the economy.
- The government spends money improving Ireland's infrastructure (roads, airports, sea ports and so on). In 2018, the government launched "Project Ireland 2040" – a plan that involves spending €115 billion on improving infrastructure in Ireland. This will make it easier, quicker and cheaper for businesses to their transport goods around the country.
- The government spends a lot of money paying wages to its employees in the public sector and paying social welfare to people who do not have jobs. This money gives these people disposable income that they can spend buying goods and services from Irish businesses. This government expenditure leads to increased demand in the economy.
- The Irish government invests billions of euro every year in the education system (e.g. covering third-level tuition fees). This has helped make workers here among the most educated in the world. This means that businesses in the Irish economy have a plentiful supply of talented and skilled employees.

2. Government Agencies

The government has set up two state-owned enterprises to help businesses.

Industrial Development Authority Ireland (IDA)

The IDA is the state-owned company responsible for attracting foreign businesses to set up a branch in Ireland. This is known as foreign direct investment (FDI). The IDA attracts FDI in the following ways:

IDA Ireland

Funding

- It encourages FDI by offering foreign businesses funding and grants to set up in Ireland.
- It provides grants to help pay for the capital costs of setting up in Ireland and to pay for any training the workers may require.
- It provides financial incentives to help companies pay for the cost of research and development they carry out here.

Information

- It provides foreign businesses with the information they will need to run a business in Ireland, including information on Irish taxes, Irish labour law, operating costs for businesses here, infrastructure available in Ireland and the support services that are available to businesses that set up here.
- It provides foreign businesses with reports on the Irish economy in general and on specific industries and regions of Ireland.

Networking

- It makes contacts for foreign businesses by introducing them to similar companies and industry groups in Ireland. It also makes connections between foreign companies and third-level institutions and research centres to ensure they can access the necessary skills, experience and research capabilities needed to drive their business.

Enterprise Ireland

Enterprise Ireland is responsible for the development and growth of Irish enterprises in world markets. It works in partnership with Irish enterprises to help them start, grow, innovate and win export sales in global markets in the following ways:

ENTERPRISE IRELAND

Funding

- It provides Irish businesses with a range of funding and grants to help them develop and grow an export market.
- It makes money available to those starting a business for the first time and also to already existing businesses.
- It provides funding for indigenous businesses that engage in research and development.

Information

- Its development advisors provide indigenous businesses with a step-by-step guide to exporting.
- The Enterprise Ireland Market Research Centre offers Irish exporters access to the most up-to-date information on a vast range of markets, companies and countries – information needed to explore opportunities and to compete in international markets.

Advice

- It assigns client companies a dedicated Enterprise Ireland adviser who offers indigenous businesses specialist expertise in export sales, market research, raising finance and human resources.
- It often provides the service of a mentor to advise the company on issues relating to developing and executing an international sales strategy. Mentors are successful senior executives who advise clients on the basis of their own business experience.

Productivity

- It works with indigenous businesses to help them improve their competitiveness in the world market. It does this by teaching them about the best practices in their industry and by providing access to a range of competitiveness-building tools. These are designed to build the experience, knowledge and capability of a firm's employees to improve its performance and to ensure a strong competitiveness position in global markets.

Networking

- Its international offices help Irish businesses to find distribution partners and to identify potential customers. And it introduces them to buyers and helps them to set up in overseas markets.

3. Government Taxation

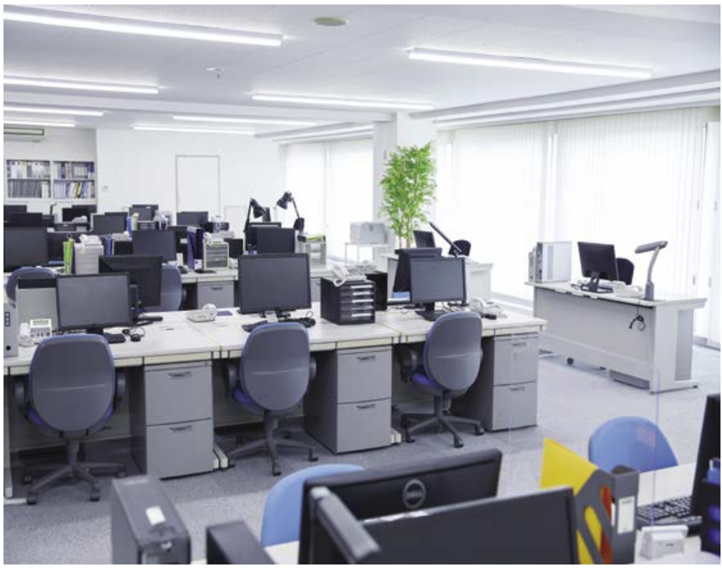
The government can **lower taxes** to create a suitable climate for a business enterprise.

- Lower value added tax (VAT) means that the government adds less tax to the prices of products and services, which makes them cheaper. Therefore, customers can afford to buy more products and services. This leads to higher sales for businesses in Ireland. For example, in 2020, to help the hospitality sector recover from the economic effects of the Covid-19 pandemic, the government reduced the rate of VAT on hospitality from 13.5% to 9%.

- A lower rate of employer's PRSI means a business pays a smaller contribution to the government for every worker it employs. This reduces the business's costs by making it less expensive to hire workers. Lower costs allow the business to lower its prices, making the business more competitive in the market. In 2011, as part of its jobs initiative, the government halved the rate of employer's PRSI.
- Lower rates of self-assessment income tax and corporation tax on business profits mean the government takes less from entrepreneurs. This leaves them with more profits to use for the expansion of their business. Lower taxes on business profits increase the profits to be made from running a business in Ireland. This encourages more enterprise and investment in Ireland. For example, the government lowered corporation tax from 16% in 2002 to 12.5% in 2003.
- Lower payroll taxes, such as PAYE and USC, taken from employees' wages encourage them to do overtime, as they receive a larger net wage. This helps businesses ensure they are fully staffed during busy periods. For example, in 2015, the government lowered the top rate of PAYE from 41% to 40%.

4. Government Grants

A grant is money the **government gives** to business people to help them pay for things that they need, such as machines, computers, training and so on. The money does not have to be repaid if the business satisfies all the conditions for being awarded the grant. Grants create a suitable climate for business enterprises as follows:



- Grants make it cheaper to set up a business. The government pays for part of the costs involved.
- Grants attract multinational companies to set up in Ireland. These multinationals buy from Irish businesses, thus increasing their sales and profits.

Government Regulation

Although the government seeks to encourage business in Ireland, it does not allow it to act unchecked. It regulates business for the good of society. The government passes laws to control the activities of business and to protect employees, consumers and society from the actions of businesses. Examples of such laws include the following:

1. The **national minimum wage** is the lowest amount of money an employer can pay an employee for each hour she works. The legal minimum payable depends on the age of the employee. The minimum wage ensures that employees are not exploited.
2. The **Sale of Goods and Supply of Services Act, 1980** makes retailers legally responsible for resolving a customer's complaint. It also states that if a retailer sells a customer a faulty product or service, he must give the customer a full refund of her money.
3. The **Unfair Dismissals Act 1977–2015** prevents an employer from sacking an employee without just cause. If a sacked worker takes a case against a former employer, the employer must prove that she had a fair reason to dismiss the worker and that she followed correct procedures before doing so. If she cannot prove this, the employee may be awarded their job back or compensation from the employer.

4. The **Consumer Protection Act, 2007** prohibits a business from making false or misleading claims about its products. It also makes it illegal for a business to harass consumers or to coerce them into buying something.

How Government Affects the Labour Force

The labour force comprises all those people in Ireland who are either in work or are looking for work (i.e. all those available for work). The government can affect these people as follows:

Government Expenditure

The money the Irish government has invested in education (e.g. covering third-level tuition fees) has made Irish workers among the most educated and skilled in the world. This in turn has helped to attract high-tech "smart economy" businesses to Ireland that provide employees in the Irish labour force with challenging and well-paid jobs. Dell, Intel, Microsoft, PayPal and eBay are among those to have have set up operations here.

Government Agencies

The government established IDA Ireland. It attracts foreign direct investment. When these multinational companies come here, they create jobs for people in the Irish labour force.

Enterprise Ireland helps Irish businesses to grow internationally. Bigger Irish businesses need more employees, thus creating jobs for people in the Irish labour force.

Lower Taxation

In recent years the government has reduced the tax on wages. In 2015, it lowered the top rate of PAYE from 41% to 40%. In Budget 2018, it lowered USC. Lower payroll taxes taken from wages leave employees in the labour force with greater disposable income (more money left to spend on themselves) and a higher standard of living.

Government Regulation

Government regulation refers to the laws the government has passed to control the activities of businesses and to protect employees. Such regulation has a positive impact on the labour force as it gives employees guaranteed rights and protection from employers who might otherwise exploit them.

Minimum-wage legislation ensures that all employees in the labour force earn a basic wage by law. The national minimum wage is the lowest amount of money an employer can pay an employee for each hour she works. The legal minimum payable depends on the age of an employee.

Government as Employer

The Irish government is by far the biggest employer in Ireland. It has created thousands of jobs for people in the labour force. It employs people in the civil service (those who work in the various government departments), in the public service (e.g. doctors, nurses and teachers) and in state-owned enterprises (e.g. CIÉ). Thus, the government helps to increase the number of jobs available to people in the labour force.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. List **three** economic variables that have an impact on Irish businesses.
2. Outline **two** ways in which high inflation can affect business.
3. Explain the term "unemployment".
4. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	Higher inflation may cause workers to ask for a pay rise.	
B	When interest rates increase, consumers tend to buy more from businesses.	
C	High unemployment in the economy leads to higher taxes.	
D	When the euro increases in value against the US dollar, Irish products become cheaper in the US and we sell more.	
E	Interest rates in Ireland are set by the Irish government.	

5. Outline **two** ways in which low interest rates can affect business.
6. Is unemployment in Ireland high or low? Explain how this affects Irish business.
7. Outline **two** ways in which lower taxes affect business.
8. Distinguish between inflation rate and exchange rate.
9. Outline **two** ways in which business in Ireland helps the economy.
10. Outline **two** ways in which government expenditure can help business.
11. What is a grant? Explain how grants help business.
12. Name **three** laws that the government has passed to regulate the activities of business.
13. Outline **two** ways in which the Irish government affects the labour force.
14. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. Government regulation
2. Government expenditure
3. Enterprise Ireland
4. IDA Ireland
5. FDI
6. Unemployment

Column 2: Explanations
(a) Attracts foreign direct investment into Ireland
(b) Percentage of the labour force that does not have a job
(c) Promotes the Irish food and drink industry
(d) Foreign direct investment
(e) The laws the government has passed to control the activities of businesses and to protect employees, consumers and society from the actions of businesses
(f) Money that the government spends every year
(g) Helps indigenous Irish entrepreneurs to export around the world

1	2	3	4	5	6

EXAM SECTION 2 – LONG QUESTIONS

1. What is inflation? **(10 marks)**
2. Give **three** reasons why high inflation is bad for business. **(15 marks)**
3. List **three** benefits of low unemployment for Irish business. **(15 marks)**
4. Identify **two** disadvantages for Irish business of the euro increasing in value against the US dollar. **(10 marks)**
5. Describe the impact of an increase in taxes on business. **(15 marks)**
6. Outline **four** effects (two good and two bad) of business on the Irish economy. **(20 marks)**
7. Describe **three** measures taken by the government to help Irish business. **(15 marks)**
8. Outline the role of Enterprise Ireland. **(10 marks)**
9. Explain the term "labour force". Describe **three** ways in which the Irish government affects the labour force. **(20 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between "inflation rate" and "interest rate".
2. Explain why a high unemployment rate is bad for Irish business.
3. Define the term "exchange rate".
4. Distinguish between Enterprise Ireland and IDA Ireland.
5. Complete this sentence: Government expenditure helps a business to…
6. Explain the term "government grant". Evaluate the impact of grants on the development of the Irish economy.
7. Outline **two** ways in which the government affects Irish business.
8. Define the term "labour force".
9. Illustrate your understanding of the term "government regulation".

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Julie's Jewels Ltd

Julie Crowley owns and runs her own jewellery manufacturing business, Julie's Jewels Ltd. Julie's designs have proved so popular that she has had to hire a number of full and part-time staff to help out. As her profits have increased over the years, she has increased her employees' wages. She now exports to a number of countries worldwide and is proud of the fact that she still sources all her materials from indigenous Irish suppliers.

Julie's business has encountered problems, though. The increasing cost of materials from suppliers has put a dent in her profits. Finding good design staff is not as easy as she had hoped because almost all the design graduates in Ireland have jobs lined up before leaving college. She had to cancel the purchase of a new factory because she could not afford the high loan repayments the bank quoted her. One American department store cancelled a €100,000 order at the last minute, complaining bitterly about the price increase. Julie cannot understand this as she has always charged the store €100,000 for such orders.

(A) Evaluate the impact of the economic variables on Julie's business. **(30 marks)**

(B) Discuss the impact of Julie's business on the Irish economy. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Outline the impact of exchange rates and taxation on business. **(20 marks)**
2. Contrast the effects of higher inflation and higher grants on Irish business. **(20 marks)**
3. Illustrate the importance of low interest rates for Irish business. **(10 marks)**
4. Discuss the significance of business activity for the Irish economy. **(20 marks)**
5. Evaluate the role of the Irish government in creating a suitable climate for business in this country. **(25 marks)**
6. Explain the various ways in which government affects the labour force. **(20 marks)**

UNIT 6

CHAPTER 22

COMMUNITY DEVELOPMENT

LEARNING OUTCOMES

In this chapter, we will look at:

- How local people can come together to improve their area.
- Why it is so important that they do so.
- What assistance is available to help local people improve their area.

Despite Ireland being one of the wealthiest countries in the world, many communities here still face problems of disadvantage. Rather than just putting up with these problems or waiting for others to solve them, a lot of communities attempt to solve their problems themselves. This is called community development.

Community Development

Community development is when local people come together to identify the main problems in their area and to develop a plan to solve these problems themselves. It involves local people regenerating their area in a number of ways, often by starting a local community business.

> Residents in Rathgormack, County Waterford, built a community centre for their village. As part of the development, they also constructed a tourist hostel. The profits from the hostel pay for the upkeep of the community centre.

Economic Benefits of Community Development

Community development has a number of important **economic benefits** for the local area:

1. It creates **jobs** for local people. The wages they receive give them a higher standard of living than they would have if they stayed on social welfare. Furthermore, a business creates jobs indirectly. By giving its suppliers contracts, the business helps to maintain and create jobs in supplier firms, too.
2. Local people **spend** the money they make from their jobs or businesses in their local area: in their local shops, pubs, restaurants, banks, hotels and so on. This increases the sales and profits of these other local businesses, thereby helping them to succeed as well. Thus, community enterprise has a positive spin-off effect for many businesses in the area.

3. It creates a new breed of **entrepreneur** in the local area. People in the community see their friends and neighbours set up businesses and this gives them the motivation and courage to set up a business themselves. This leads to more enterprise and wealth in the community.
4. The government receives **taxes** from the new businesses and also has to pay out less on social welfare benefits because fewer people in the community are unemployed. This increases the money the government has available to spend on hospitals, schools, gardaí and roads in the area.

Social Benefits of Community Development

Community development also has a number of important **social benefits** for the local area:

1. A successful local economy brings prosperity to an area. The area improves as facilities are developed to take advantage of its new-found wealth. Local people feel a **sense of pride** in their community as its appearance and facilities improve. There is a great sense of community spirit in the area and locals enjoy living there more.
2. As an area becomes more prosperous thanks to the success of a local business, local people are more likely to remain living there because there are jobs and wealth in the area. They will not be forced to migrate to other parts of Ireland or to emigrate to other countries. This prevents depopulation in the area and keeps the community alive, with local schools and activities thriving.
3. Community development provides local people with an opportunity to work together and to build relationships with each other. This helps to create a sense of belonging and it satisfies their social needs.

Community Development Organisations

We have just seen that community development has a lot of advantages for a local area and for Ireland as a whole. It is something to be encouraged. Many organisations have been established to help local people to set up a community business. These are as follows:

Local Enterprise Offices (LEO)

There are 31 Local Enterprise Offices throughout Ireland (for example, Local Enterprise Office Offaly). They help people interested in starting up a new business or growing a business in Ireland.

Local Enterprise Offices help local community businesses in the following ways:

1. The Local Enterprise Offices are the local first-stop shop for new entrepreneurs and existing small-business owners. They offer **advice and information** on starting or growing a business. They ensure that entrepreneurs can get access to all government supports (from the local council, Enterprise Ireland and all state agencies) easily and conveniently in one place.
2. They offer a wide range of **financial supports** (including grants and loans) to help a local business to start up, develop and expand. Feasibility grants are provided to help the local business to establish whether its idea is likely to be successful. Capital grants are available to help pay the cost of setting up the business. Small business loans are available at a cheaper rate of interest than that charged by banks.

3. Local Enterprise Offices run "Start Your Own Business" courses to **train** local people in all the skills needed to run a business successfully. They teach them about market research, marketing, financial management, tax, bookkeeping and business planning.
4. They provide the local business with a **mentor** to advise and guide it through all the stages of setting up and running the business. The mentor is an experienced business person. If the business runs into any problems, it can contact the mentor, who will offer impartial and expert advice on how to solve these problems.

Area Partnership Companies

Area Partnership Companies (APCs) are organisations that help local people to set up a business in their area. Each APC develops an Area Action Plan to help the community address the problems of disadvantage that it faces.

Examples include Galway City Partnership and Waterford Area Partnership.

APCs provide the following assistance to local community businesses:

1. They provide community businesses with **grants** to help pay the costs of setting up the business. These grants are used to purchase the computers, machinery and equipment that the business needs.
2. They organise **workshops** to train local people in all the skills needed to run a community business successfully, such as business plans, marketing, accounts and taxation. They also provide ongoing advice for community businesses to help them deal with the day-to-day problems of running a business.
3. They provide **advice and support** for local people setting up or running a local business. For example, they help them with taxation and drawing up a business plan.
4. They assign a **mentor** to work with the community business. The mentor is an experienced business person. If the business has a problem, it can contact the mentor, who can give practical advice based on experience to solve the problem. She also suggests improvements needed in the overall running of the business.

Rural Development Programme – LEADER

LEADER is a programme jointly funded by the EU and the Irish government that helps both private enterprise and community groups to improve the quality of life in rural areas, perhaps by developing community businesses suitable to their areas. LEADER is administered in each area by a Local Action Group. The aim of the LEADER programme is to reduce poverty and to promote social inclusion and economic development in rural Ireland.

LEADER provides the following service to rural entrepreneurs:

1. It offers the rural entrepreneur **advice** about the viability of her business idea and how to proceed with it to make it a success. This advice includes analysing the costs involved, the competition, how much to charge for her product, and how to market and promote the business.
2. It provides **grants** to the rural enterprise to help it pay for the equipment and materials it needs to operate. It will pay up to 75% of the costs involved.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "community development".
2. List **two** benefits that a community business can bring to a local area.
3. Name **three** organisations that help local community development.
4. What is the role of a mentor in business?

EXAM SECTION 2 – LONG QUESTIONS

1. Outline **three** benefits of local community development. (15 marks)
2. A friend of yours is thinking about setting up a business but is unsure how to go about it. Describe **three** ways in which a Local Enterprise Office will help your friend to set up his/her business. (15 marks)

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "community enterprise".
2. Outline **two** reasons why local business is important to a local community.
3. What do the letters LEO stand for? Explain the role of an LEO in business.
4. Complete this sentence: Being a mentor involves…

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Sandyrock

Sandyrock is a disadvantaged area in one of the big cities in Ireland. It suffers from a number of social problems, including unemployment, poverty, crime, poorly designed council high-rise tower blocks and a lack of adequate shops and facilities for local people. Justin Daly grew up in Sandyrock. After being unemployed for a number of years, he recently decided to set up his own business in the area. His business manufactures frames for photographs and pictures.

The success of Justin's business has inspired his friend Barbara to think about setting up her own business in Sandyrock. Although she has not conducted any market research, she is convinced that her idea of bus tours of Sandyrock will be a winner. She researched the cost of buying a bus and, being unable to afford to buy one, she is thinking about renting one. She asked Justin for advice about setting up a business and he told her to contact one of the local community development organisations in the area.

Barbara is worried that her lack of any business experience will hold her back. Barbara did not do business for her Leaving Certificate and has no actual business experience. She realises that she cannot keep asking Justin for advice and is unsure how to proceed.

Describe how the services provided by one community development organisation of your choice can assist Barbara. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Define "community development".
   Explain its importance for local communities throughout Ireland. **(30 marks)**
2. Evaluate the role of Local Enterprise Offices in assisting community development. **(25 marks)**
3. Discuss the economic and social benefits of community development for an area. **(20 marks)**

UNIT 6

CHAPTER 23

SOCIAL, ETHICAL & ENVIRONMENTAL RESPONSIBILITIES OF BUSINESS

LEARNING OUTCOMES

In this chapter, we will look at:

- The responsibility of a business to treat everyone fairly.
- How to ensure that a business is always behaving properly.
- A business's responsibility to protect the environment.
- How doing the "right thing" impacts on a business's "bottom line".

Entrepreneurs enjoy many benefits of success. But they also have many responsibilities with regard to the environment and to others. This chapter looks at these responsibilities.

Social Responsibility of Business

The **corporate social responsibility (CSR)** of a business is its duty to treat all those it comes into contact with honestly, fairly and in a way acceptable to society. The business has an obligation to do good and make a positive contribution to the lives of the people and the environment it affects.

> Lidl carries out fundraising for Jigsaw, which supports the mental health of young people.
>
> Boots Cancer Beauty Advisors are trained to offer make-up tips to help manage the visible side effects of treatment.
>
> An Post offers a free service called Address Point. It gives homeless people in Ireland a unique address of their own. It enables them to receive regular post and to access essential services.

A business has a social responsibility to a number of stakeholders, as follows:

Investors

Investors provide the capital that the business needs to set up and expand. The business therefore has a responsibility to its investors.

It must give them **honest information** about the business's financial performance. This helps the investors to make informed decisions about whether to invest more or to withdraw their capital from the business.

The business also has a responsibility to share its success with its investors and provide them with a decent return on investment (ROI) by paying them a reasonable dividend (share of the profits).

Employees

Employees are the people who work in a business, carrying out tasks to the best of their abilities to make it a success.

The business has a responsibility to its employees to pay them a **fair wage** for the work they do. This wage should reflect their qualifications and skills and the effort they put in.

> Lidl pays its Irish employees a living wage, not just the legal minimum wage.
>
> Vodafone Ireland provides sixteen weeks' fully paid parental leave to all of its employees who become parents.

A business has a duty to provide employees with **safe working conditions** by ensuring that correct health-and-safety procedures are followed so that workers are not harmed in any way.

Suppliers

Suppliers are the other firms a business buys from (e.g. stock). Suppliers provide the business with the goods and other things it needs to be successful.

The business has a responsibility to pay its suppliers **in full** and **on time**. It should never make them wait for payment beyond the terms of credit set by the supplier.

No matter how big the business and how small the supplier, the business should not exploit its suppliers. It should pay them a **fair price** for what they supply.

> The Body Shop buys many of its ingredients from small-scale or disadvantaged suppliers (e.g. from the developing world). It pays these Fairtrade suppliers a fair price for the ingredients they supply, and also gives them what it calls a "community premium". This is an additional sum of money to be spent on whatever their community needs most: schools, wells and healthcare facilities and so on. The Body Shop is a socially responsible business.

Customers

Customers are the people who buy a business's products and services, thus providing it with a profit.

The business has a responsibility to its customers to provide them with **good-quality products** and **services** that are **safe** and unlikely to cause harm, and at a **reasonable price**.

The business has a duty to advertise in a legal, decent, honest and responsible way. It should not tell lies or try to mislead potential customers about a product or its price in its advertising or in any other form of communication. This will allow potential customers to make a fair and informed purchasing decision.

Spotify offers "Spotify Kids" to ensure that younger children cannot access inappropriate songs.

Vodafone provides a free helpline for customers over 70 who wish to speak to a Vodafone representative for tech support and advice.

Government

The government helps businesses in many ways, including by giving them grants, improving Ireland's infrastructure and lowering taxes.

A business has a responsibility to the government to comply with both the letter and the spirit of all of the **laws** of the country. It also has a duty to pay all the **taxes** it is liable for in full and on time.

Local Communities

The "local community" consists of all the people living in the area around a business.

All businesses must preserve and protect the **local environment** and ensure that none of their actions damages it in any way.

Businesses also have a duty to **help** the **communities** they operate in by buying from local suppliers and by hiring local people.

IKEA fulfilled its social responsibility to the people of Ballymun in Dublin when it opened its first Irish store (in Ballymun) by hiring as many people from the Ballymun community as possible.

Diageo Ireland (the brewer of Guinness) awards scholarships to students from six secondary schools in Dublin 8 (the community in which the Guinness factory is located) to help them progress into third-level education.

Lidl buys over €500 million worth of food and drink from Irish suppliers.

Advantages of Being Socially Responsible

1. Increased Sales

Consumers like businesses that behave in a socially responsible manner. Most consumers care about the environment and society and prefer to buy from businesses that treat all people honestly and fairly. Therefore, socially responsible businesses enjoy increased sales.

The Body Shop enjoys high sales because of its socially responsible stance on buying materials from poorer communities and because of its support of human rights around the world.

2. Easier to Attract and Retain Employees

Employees like to work for businesses that pay a decent wage and offer good conditions. This makes it easier for such businesses to recruit and keep workers. This reduces the business's recruitment costs and increases productivity.

Google has consistently been voted among the best employers in Ireland. This helps it to attract the brightest and best employees, which is critical for its continued success.

3. Reduced Costs

If a business behaves properly now, no one will have a reason to sue it in the future for bad business practices. Thus, the socially responsible business will save money by avoiding costly lawsuits and consumer boycotts in the future.

> In 2015, Volkswagen admitted to installing software in its cars that could detect when they were being tested for emissions levels. The performance of the cars was then adjusted so as to trick testers into thinking the cars were more environmentally safe than they actually were. The total cost to the company of this socially irresponsible act is expected to be around €55 billion worldwide (in government fines, buying back the cars from customers, legal and compensation bills and so on).

4. Easier to Attract Capital

Socially responsible businesses find it easier to attract capital. An increasing number of investors care about how and where the capital they provide is used. They would not want their money funding harmful activities.

> Aviva refused to invest in Deliveroo because of Deliveroo's refusal to recognise its riders as salaried employees.

Business Ethics

Business ethics are moral principles that guide business people about how they should act in business situations. They guide business people when determining the right thing to do and in recognising the wrong thing to do in any given situation.

Ethical business practice means conducting business according to a set of moral principles. This ensures the business behaves in an honest, fair and legal manner. It means doing the right thing in all situations, regardless of the effect on profit.

> The Body Shop behaves ethically. Even though it costs the business more, it refuses to test its products on animals and it pays a fair price to its suppliers for their goods.

Many businesses are now selling products with the Fairtrade mark. Fairtrade is an organisation that promotes ethical trade with countries in the developing world. Its aim is to ensure that producers get a fair price and that workers get a fair wage and decent working conditions.

A manager can take a number of steps to ensure that a business acts ethically.

1. Managers Must Lead by Example

If a manager wishes to impose ethical standards on his employees, it is essential that he sets them a good example. He himself must behave ethically at all times. He must disapprove of and punish unethical behaviour and reward ethical behaviour. This will show employees how seriously ethics are valued in the business and will motivate them to behave ethically.

> In 2019, McDonald's sacked its CEO because he broke company policy by having a relationship with a fellow employee. This sent out the message very clearly to all employees that unethical behaviour (i.e. breaking company policy) would not be tolerated at McDonald's.

2. Managers Must Encourage Employees to Report Others

If managers want their businesses to be ethical, they must know about unethical practices going on in their businesses so that they can then take steps to stamp them out. They have to encourage employees to report any instances of unethical behaviour they witness. An employee doing this is called a whistle-blower.

> Vodafone operates a confidential phone line called "Speak Up" that enables its employees to report any behaviour at work they feel may be unethical.

3. Managers Must Draw Up a Code of Ethics

If a business wants to be ethical, managers and employees must know exactly what ethical and unethical business practices are. The business should draw up a code of ethics.

A **code of ethics** is a formal written document that sets out rules for employees and managers to follow when making decisions. It tells them the correct way to behave and the right thing to do in a given situation. The code of ethics should be included in staff training so that all staff know how to behave ethically.

A code of ethics for employees in a business might be as follows:

Code of Ethics for a Business

1. Employees will keep all information confidential.
2. Employees will treat all customers fairly and equally.
3. Employees will not work for rival businesses while they are employed by this business.
4. Employees will help and support their colleagues.

Benefits of a Code of Ethics

1. Consumers like businesses that operate a code of ethics. Most consumers care about the environment and society and prefer to buy from businesses that are seen to abide by a code of ethics and treat all people honestly and fairly. Thus, it can lead to an improved reputation and improved sales for the business.
2. A code of ethics shows employees the standards expected of them. The business has a reference point against which to judge their actions and decisions. Those employees that consistently fail to meet the standards expected of them can be dismissed. This helps to ensure that they do not harm the business.
3. A code of ethics helps employees to understand the expectations the business has of them. It makes them aware of things that may not have been obvious to them. Thus, it helps to prevent inadvertent, yet potentially harmful, mistakes.
4. A code of ethics encourages employees and managers to act appropriately at all times. This leads to less theft and fraud in the business.

Challenges of a Code of Ethics

1. It can be hard to introduce a code of ethics into a business when a culture already exists – i.e. a way of doing things that everyone is used to. It may take a while for managers and employees to respect it and support it.
2. A major challenge of a code of ethics is the need to enforce it. The business must impose sanctions if the code is violated. If employees pick up on the fact that nothing is ever said or done about violations, they will soon ignore it. However, applying these sanctions may lead to lower employee morale and poorer industrial relations in the business.
3. When a business introduces a code of ethics, it must train the employees so that they understand it and implement it correctly. This training will increase the business's costs.

4. Managers Must Arrange for Ethical Audits

If managers want their business to be ethical, they should get their business assessed by an independent outsider called an **ethics auditor**. The auditor examines every aspect of the business: how it is managed, where it buys its materials, what it sells and how it treats employees, customers, suppliers, society and other stakeholders.

The auditor then sends a report to the managers, highlighting those areas where the business behaved unethically. The business can then take steps to eradicate this bad behaviour.

Online fashion retailer Boohoo uses an ethical auditor called Fast Forward to make sure none of its suppliers are exploiting their employees and that they are obeying employment laws and adhering to ethical labour standards.

Environmental Responsibilities of Business

We have seen that businesses have a responsibility to do the right thing. This is especially true when it comes to the environment. Businesses must make themselves aware of the main environmental issues and make sure that they take positive steps to minimise their harmful effect on the environment. They must also remember that environmental issues can have a major impact on their business.

1. Climate Change

Climate change is recognised as one of the most serious environmental threats in the world. Businesses use fossil fuels (petrol, diesel, coal, peat, gas and so on) to provide heat and run machinery and vehicles. This leads to the "greenhouse gas" carbon dioxide being released into the earth's atmosphere. Greenhouse gases trap heat in the atmosphere and cause the earth's temperature to rise, leading to storms, floods and droughts.

Therefore, a business has a responsibility to use fossil fuels as **efficiently** as possible and to switch to **renewable** sources of energy, such as solar and wind power. These do not cause greenhouses gases, so they will not damage the environment.

2. Waste Management

Businesses create a huge amount of waste (packaging, chemicals and so on). This waste must be disposed of in a way that does not harm the environment. In Ireland, most of the waste is buried in the ground (this is called landfill), but there are fewer and fewer landfill sites available in Ireland. The government has a policy to deal with waste management, called the "polluter pays principle". The more waste a business produces, the more it costs to dispose of it.

Therefore, a business has a responsibility to minimise the amount of waste that it produces. It can do this by **reducing**, **reusing** and **recycling**. A business can reduce waste by sending emails instead of written memos and by reducing the amount of packaging it uses in its products. It can reuse shredded paper for packaging and so on. It can recycle glass bottles and jars, cardboard and paper and so on.

SuperValu sells reusable compostable shopping bags as part of its efforts to reduce the amount of plastic used in shops.

Pandora, a jewellery maker and retailer, uses recycled gold and silver as the recycling of metals requires fewer resources than mining new metals and reduces the dependence on hazardous mining.

3. Pollution

Pollution involves humans introducing substances into nature that have a harmful effect on the environment. A business has a responsibility not to pollute the environment. It must use machines that minimise the release of harmful emissions into the air and water (and, if possible, seek to eliminate them). If possible, it should source its raw materials locally so that they do not have to be transported great distances, thereby reducing their carbon footprint.

McDonald's has replaced plastic straws with paper ones in its Irish restaurants.

4. Sustainable Development

"Sustainable development" is defined as conducting business in a way that meets present needs without compromising the ability of future generations to meet their needs.

In other words, a business has a responsibility to protect and preserve the environment so that future generations can live and prosper. If a business takes something from nature, it should replace it.

For example, a business should use wood from sustainably managed forests, whereby for every tree chopped down, a new one is planted.

The toilet-paper manufacturer Velvet replants three trees for every tree it uses.

Characteristics of an Environmentally Conscious Business

A business that truly cares about the environment displays the following characteristics:

1. Sensitive to the Environment

An environmentally conscious business minimises waste and pollution by reducing, reusing and recycling.

For example, it **reduces** its waste by photocopying on both sides of paper, sending emails instead of memos, using rechargeable batteries and storing data on computers rather than printing it on paper.

> Cadbury Ireland developed an environmental strategy it calls "Cadbury's Purple Goes Green". It reduced the packaging it uses for its selection boxes by over 30%, saving over 400 tonnes of cardboard.

An environmentally conscious business **recycles** its waste by recycling glass bottles and jars, cardboard and paper and so on.

> The clothing company H&M recycles old clothes collected from customers. They are recycled to produce textile fibres or to make products such as insulation materials.

An environmentally conscious business **reuses** folders, paper clips and rubber bands, gives workers ceramic mugs to reuse (thus eliminating the need for polystyrene cups), reuses shredded paper for packaging and so on.

> Starbucks offers customers a discount on their coffee when they use their own reusable cups.

2. Open to New Ideas

An environmentally conscious business learns about environmental issues by regularly attending waste workshops and waste seminars and by seeking advice from the Environmental Protection Agency. In this way it learns to manage its waste even better. It attempts to come up with lots of new ideas to reduce its harmful impact on the environment.

> The makers of Johnnie Walker whiskey have introduced a plastic-free, paper-based bottle.

3. Practises Sustainable Development

This is conducting business in a way that meets present needs without compromising the ability of future generations to meet their needs. Environmentally conscious businesses protect and preserve the environment so that future generations can live and prosper.

> The Irish beauty brand VOYA ensures that the seaweed used in its products is harvested sustainably, protecting the biodiversity of the west coast reefs.

4. Consults Others

A business that cares about the environment prepares an **Environmental Impact Statement** before starting any project. This involves assessing the likely impact of the business's plans on the environment and taking steps to minimise any bad effects they may have.

It also communicates with all interested parties before it makes any decision that may affect the environment. It takes on board the views and advice expressed by people before it starts a project so that the input it receives ensures it does not inadvertently damage the environment.

Tesco listened to complaints about its shopping trolleys ending up in laneways, gardens and rivers near its Nutgrove Shopping Centre store in Dublin. This led the company to introduce a system that prevents a trolley leaving the centre. A month after the system was introduced, only one trolley had been removed.

5. Honest About Environmental Matters

An environmentally friendly business does not hide its accidents. If the business has an industrial accident (e.g. the accidental pollution of a local river), it will inform the appropriate authorities immediately. This will enable the authorities to repair the damage as quickly as possible.

Importance of Being an Environmentally Friendly Business

1. Increased Sales

There is growing demand worldwide for "green" products: ones that do not harm the environment. Being environmentally responsible can set a business apart from its competitors and give it a unique selling point (USP) that attracts new customers who want to buy products and services from an environmentally friendly business.

When Boeing developed an aircraft that uses 20% less fuel than other planes – the 787 Dreamliner – orders came flooding in from airlines all around the world.

2. Lower Costs

When it comes to the environment, the government has a policy of "the polluter pays". The more waste the business produces, the more it will pay to dispose of it. Businesses that are environmentally responsible produce less waste by reducing, reusing and recycling. This reduces their costs as they have less waste going into "landfill" (i.e. where waste is buried in the ground).

3. Better Image

A business that is environmentally responsible will enjoy good Public Relations (PR), which will enhance its reputation and image with customers. This may lead to increased customer loyalty.

Many consumers shop at The Body Shop because it is known as an environmentally responsible business.

4. Compliance with the Law

Every year governments in Ireland and abroad pass more and more laws to protect the environment. Going green means getting ahead of the curve – the business is well prepared for the laws that come out and they do not have a disruptive effect on it.

Effects of Meeting Responsibilities

Doing the right thing brings advantages and disadvantages for a business. The main disadvantage is higher costs in the short term. However, many businesses believe that the higher costs are more than offset by higher sales, a better public image and increased goodwill in the long term.

Effects on Costs

1. Increased Wages Bill

To meet its social and ethical responsibilities to employees, a business will pay them a fair wage and provide them with safe working conditions. This will increase a business's costs because it will offer its workers a higher rate of pay and better conditions than the legal minimum.

2. Increased Manufacturing Costs

To meet its responsibilities to society, a business will buy recyclable materials and machines that do not pollute the environment for use in its manufacturing process. This will increase a business's costs because it is expensive to dispose of and replace old polluting and environmentally unfriendly machines. Also, recyclable materials tend to be more expensive than old-fashioned materials that may harm the environment.

3. Increased Materials Costs

To meet its social and ethical responsibilities to its suppliers, a business will pay them a fair price for their products.

Not only does The Body Shop pay its Fairtrade suppliers a fair price for the ingredients they supply, it also gives them what it calls a "community premium". This is an additional sum of money to be spent on whatever their community needs most: schools, wells and healthcare facilities and so on.

4. Lower Legal Costs

A business that meets its ethical, social and environmental responsibilities will save money in the long run as it will avoid costly lawsuits and fines for unacceptable behaviour.

Volkswagen paid billions of euro in fines and legal costs following its admission that it fitted its cars with software to disguise emissions levels.

5. Lower Energy Costs

A business that meets its ethical, social and environmental responsibilities by using renewable energy, such as solar and wind power, will save money in the long run, as these energy sources are much cheaper than fossil fuels.

Effects on Revenue

1. **Increased Sales**

   Consumers like businesses that behave ethically and in a socially responsible manner. Most consumers care about the environment and society and prefer to buy from businesses that treat all people honestly and fairly.

   > The Body Shop enjoys high sales because of its socially responsible stance on buying materials from poorer communities and its support of human rights around the world.

2. **Easier to Attract Capital**

   Many investors care how and where the capital they provide is used. They do not want their money funding illegal or harmful activities. Therefore, a business that meets its responsibilities finds it easier to attract the capital that it needs to expand. The bigger the business grows, the greater its revenue increases.

3. **New Markets**

   There is growing demand worldwide for "green" products: ones that do not harm the environment. With increasing government regulation in this area – including higher carbon taxes – a business that develops such products can save others a lot of money and thus attract more customers.

   > When Boeing developed an aircraft that uses 20% less fuel than other planes – the 787 Dreamliner – orders came flooding in from airlines all around the world.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Identify **four** stakeholders that a business has a social responsibility to.
2. Outline **two** benefits for a business of being socially responsible.
3. Explain the term "business ethics".
4. Name a business that is considered to be ethical. Outline **one** reason why this business is ethical.
5. List **two** rules for employees that might be contained in a business's code of ethics.
6. List **four** major environmental issues facing Irish business today.
7. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	The social responsibility of a business is its duty to make a positive contribution to the lives of its stakeholders.	
B	A business can help solve the problem of waste disposal by reusing and recycling.	
C	An ethical audit is when an accountant checks a business's books to make sure that the profit figure is correct.	
D	A code of ethics is a formal written document that tells all those in a business the correct way to behave.	
E	Ethical business practice means conducting business in a way that ignores the effects the business has on others	

8. List **three** environmental responsibilities of business.

EXAM SECTION 2 – LONG QUESTIONS

1. List **three** reasons why being socially responsible is good for a business. **(15 marks)**
2. Explain what is meant by "ethical business practice".
   Give **two** examples of ethical business practices. **(20 marks)**
3. Helen runs her own business and is concerned with the effect it has on others.
   A friend suggested that it is important that Helen draw up a code of ethics.
   What is a code of ethics? **(10 marks)**
4. Define the term "sustainable development". **(10 marks)**
5. You have just read that a multinational company has applied for planning permission to set up a factory in your area. Local people are in favour of it because it means jobs and more money for the area, but you are concerned about its impact on the local environment. Describe **three** environmental responsibilities of the factory that you would consider important before granting it permission. **(15 marks)**

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "corporate social responsibility".
2. Define the term "business ethics".
3. Distinguish between ethical business practice and social responsibility of business.
4. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Business ethics	(a) How the actions of a business affect its stakeholders
2. Fairtrade	(b) A person who reports unethical behaviour
3. Whistle-blower	(c) A written document setting out the correct way to behave in business
4. Ethical audit	(d) Concerned with right and wrong in business
5. Code of ethics	(e) An examination of every part of a business to assess its ethical impact
	(f) An organisation that promotes better treatment of workers in the developing world

1	2	3	4	5

5. What is ethical business practice? Name **two** businesses that practice ethical business.
6. Describe the role of management in improving a business's ethics.
7. Complete this sentence: An ethical audit requires…
8. Complete this sentence: A code of ethics helps a business because it…
9. Which environmental responsibility of a business do you feel is the most important one? Explain why.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

DOS Hotels Ltd

Doris O'Sullivan owns a large chain of budget hotels operating throughout Ireland. Doris expects her employees to work very hard, and they do. She pays them the legal minimum wage and obeys all employment laws, but she still finds it hard to recruit and keep good employees.

Doris's business strategy emphasises low costs. Doris uses a foreign supplier of beds, furniture and towels. While they are not the best quality and have to be replaced frequently, they are cheap. The business uses a huge quantity of oil each year. Doris is looking for cheaper energy sources to cut the hotels' heating bills.

Doris has not paid any dividends for the last few years, preferring instead to use the company's profits to pay for further expansion. She has her eyes on a prime site in the west of Ireland and has been promised grant funding from Enterprise Ireland to build a hotel there. Doris has hired a UK firm to design and build the hotel. She intends to relocate her best employees to run it.

No stranger to controversy, Doris rubbished a recent TV report showing how her business harms the environment. However, the bad publicity led to a substantial drop in the number of guests staying at her hotels. The report claimed that the hotels' use of washing powder containing phosphates has caused fish kills in local rivers.

(A) Evaluate the business's success in meeting its social responsibilities. **(30 marks)**

(B) Describe the environmental responsibilities of DOS Hotels Ltd. **(20 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Discuss the social responsibilities of a business. **(20 marks)**
2. Define the term "corporate social responsibility".
   Illustrate the importance of socially responsible business for the success of a business enterprise. **(30 marks)**
3. "Ethical business practice is essential for the success of a business enterprise."
   Do you agree with this statement? Support your answer with reasons and examples. **(20 marks)**
4. Outline and illustrate a method for improving a firm's business ethics. **(15 marks)**
5. Describe the environmental responsibilities of a business. **(20 marks)**
6. Demonstrate how environmental issues can impact a business. **(20 marks)**
7. Describe the actions a business can take to be more environmentally conscious. **(25 marks)**
8. Evaluate the effect on a business's costs of meeting its social, ethical and environmental responsibilities. **(20 marks)**
9. Evaluate the benefits for a business of meeting its social, ethical and environmental responsibilities. **(20 marks)**

NOTES

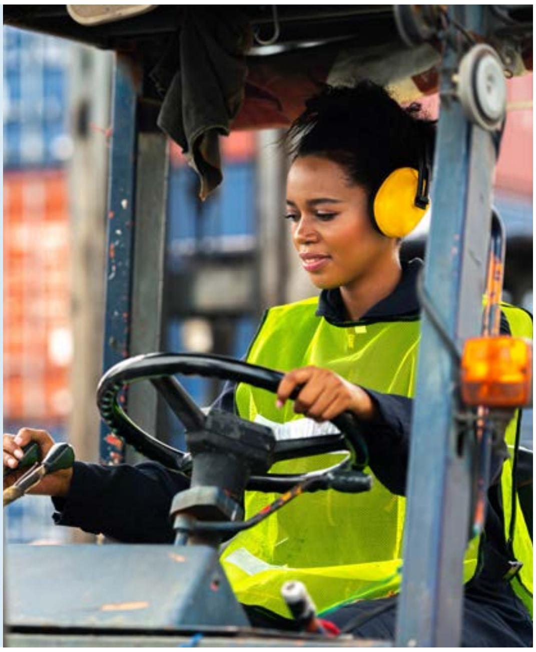
UNIT 7

CHAPTER 24 INTERNATIONAL TRADE

LEARNING OUTCOMES

In this chapter, we will look at:

- How much money Ireland makes from exporting and importing.
- How different countries choose to engage in international trade.
- How changes in the world economy impact on Irish businesses.
- The advantages of international trade for Irish businesses.
- The challenges Irish businesses face when selling abroad.
- How Irish businesses can use technology when selling abroad.
- The help available to Irish businesses that sell abroad.



Open Economy

An open economy is one that imports and exports freely with the rest of the world. A significant amount of its national income is earned from exports and is spent on imports. This means that it depends a lot on international trade.

Ireland is a small open economy. It buys and sells in huge amounts with the rest of the world. We export nearly 80% of everything produced in Ireland, therefore Irish exports account for the vast majority of Ireland's national income. Our biggest customers include the EU, the US and the UK. Our biggest exports are medical and pharmaceutical products.

Exports and Imports

- When businesses in Ireland sell products and services to foreign countries, this is called exporting.

> Kerrygold exports its butter to Spain.

- When businesses and people in Ireland buy products and services from foreign countries, this is called importing.

> Dunnes Stores imports fruit from South Africa.

Exports and imports are either **visible** or **invisible**.

Visible exports	Invisible exports
Businesses in Ireland sell products to foreign countries. Physical goods are sent out of Ireland and this brings money into the country.	Businesses in Ireland sell services to foreign countries and this brings money into Ireland.
Farmers in Ireland sell beef to French supermarkets. Kerrygold sells its butter to customers in Spain.	Tourists from Britain stay in a hotel in Dublin. A music group from Ireland tours Australia.
Visible imports	**Invisible imports**
Businesses and people in Ireland buy products from foreign countries. Physical goods are coming into Ireland and money goes out of the country.	Businesses and people in Ireland buy services from foreign countries and money goes out of Ireland.
Dunnes Stores buys fruit from South Africa. Brown Thomas buys Ralph Lauren clothes from the US.	A family from Ireland stays in a hotel in Paris. A singer from Britain puts on concerts in Ireland.

Blance of Trade and Balance of Payments

The balance of trade and the balance of payments are sets of accounts that measure how much money Ireland makes from international trade.

The balance of trade is the difference between the value of all the products Ireland exports and imports. It shows only visible trade: Ireland's exports and imports of products. If Ireland's exports are bigger than its imports, it is called a balance-of-trade **surplus**. If Ireland's imports are bigger than its exports, we say there is a balance-of-trade **deficit**.

> **Balance of Trade = Visible exports - Visible imports**

The **balance of payments** is the difference between the value of all the products and services Ireland exports and imports. Thus, the balance of payments includes the balance of (visible) trade **plus** the balance of invisible trade.

Visible trade is the import and export of **products**. Invisible trade is the import and export of **services**. The balance of payments shows the difference between the total amount of money that came into a country as a direct result of exporting and the total amount of money that left a country as a result of importing.

If Ireland's exports are bigger than its imports, it is called a balance-of-payments **surplus**. This means more money is coming into the country than is going out and Ireland is getting richer. If Ireland's imports are bigger than its exports, there is a balance-of-payments **deficit** and the opposite is true.

Balance of Payments =

Total (visible + invisible) exports - Total (visible + invisible) imports

or

Balance of (visible) trade + Balance of invisible trade

Compute the balance of trade and balance of payments for Ireland from the following figures. State whether each is a deficit or a surplus.

Visible exports	€50bn	**Visible imports**	€30bn
Invisible imports	€40bn	**Invisible exports**	€35bn

Balance of Trade =

Visible exports - Visible imports

€50bn - €30bn

= €20bn surplus

Balance of Payments =

Total (visible + invisible) exports - Total (visible + invisible) imports

(€50bn + €35bn) - (€30bn + €40bn)

€85bn - €70bn

= €15bn surplus

Why Countries Import

Most countries engage in international trade. The main reasons for importing include:

1. Lack of Natural Resources

A country might not have the natural resources it needs for businesses and consumers, and therefore has to import them.

Ireland does not have oil and must import it from Saudi Arabia. Similarly, Saudi Arabia has too much desert to breed cattle and therefore imports beef from Ireland.

2. Unsuitable Climate

A country might not have the required weather conditions to grow certain crops and will therefore have to import them.

Ireland imports coffee from Kenya and bananas from Brazil.

3. Lack of Skills

A country may not have the skills needed to make certain products. Some countries have a tradition of being highly skilled in making certain products and they become the best in the world at making them. If other countries want the best products, they have to import them.

Although we could make cars in Ireland, it would take many years for them to be as good as German cars, such as Mercedes-Benz, BMW and Audi, so it makes more sense just to import cars from Germany.

4. Bigger Choice for Consumers

The retailers in some countries want to give their consumers more choice of products to buy. So even though Ireland produces more than enough potatoes, we can still buy potatoes from many countries in our shops.

Why Countries Export

The main reasons for exporting include:

1. Survival

The number of customers in some countries may be too small for a business to make a profit there. Therefore, just to break even and survive in business, the business must export to other countries.

The only way an Irish aeroplane factory could break even is if it exported its planes, as there are not enough people in Ireland who regularly buy aeroplanes.

2. To Increase Sales and Profits

Businesses sell their products and services in foreign countries to increase their sales and profits.

> While Kerrygold is profitable in Ireland, the company makes much larger profits from its sales in other countries.

3. Diversification

A business that depends solely on one country for its sales and profits takes a big risk. If that country's economy goes through a bad patch, the business could suffer. To spread the risk, the business may sell in other countries. If one economy goes through a bad patch, sales in the other countries should keep the company profitable.

> The post-2008 economic downturn in Ireland did not lead to the closure of Baileys, as it did for many other Irish businesses. This is because Baileys' sales in other countries continued to keep the business highly profitable throughout the downturn in Ireland.

Free Trade and Protectionism

There are two main ways that countries can engage in international trade:

- **Free Trade** means that countries buy and sell with other countries without any barriers or restrictions placed in their way. The countries of the EU practise free trade with each other, as do the countries in the United States-Mexico-Canada Agreement (USMCA).
- **Protectionism** is when governments use barriers to trade to try to restrict imports and/or increase their own exports in order to help their own indigenous businesses do well.

Barriers to trade include the following:

1. Tariff

A tariff is a tax a government adds to the price of imports. This makes them dearer and they will not sell as well in that country. The higher price encourages consumers to buy from indigenous businesses instead.

> Say that the US wants to **protect** its drinks industry by reducing the amount of Irish whiskey sold in the US. At the moment, a bottle of Jameson (Irish) sells for $20 and a bottle of Jack Daniels (American) sells for $20.
>
> The US government could add a tariff of $30 to every bottle of Jameson. Now Jameson costs $50 a bottle in the US. As a result, people in the US will buy less Jameson and more Jack Daniels. The US tariff has helped US businesses.

2. Quota

The government may put a limit (called a **quota**) on the number of imports it will allow. Once this limit has been reached, no further imports are allowed, thus helping indigenous businesses. Consumers then have no choice but to buy from indigenous businesses.

> The EU currently has a quota on how many Chinese garments it will allow into the EU. This quota was introduced to protect European clothing firms from Chinese competition.

3. Embargo

To stop imports and to help indigenous businesses, a government puts a complete ban (called an **embargo**) on all imports into the country. Its consumers then have no choice but to buy from indigenous businesses.

The US operated a trade embargo against Cuba. It did not allow any Cuban imports into the US.

4. Subsidy

A **subsidy** is money that a government gives to its own indigenous businesses to allow them to sell their products and services more cheaply. In international trade it can help businesses to export more.

Volkswagen (a German car manufacturer) sells cars in Germany for €25,000. Toyota (a Japanese car manufacturer) also sells cars in Germany for €25,000.

If the Japanese government gives Toyota a payment of €10,000 for every car it sells in Germany, Toyota could drop its price by €10,000 and sell each car for only €15,000. As a result, German people would buy more Japanese cars and fewer German cars.

Thus, Japanese subsidies would help Japanese companies to sell their products abroad.

Changes in the International Economy

The world of international business is constantly changing. Because Ireland is an open economy, these changes can have a major impact on Irish businesses. The major trends in international commerce include the following.

1. Brexit

The UK's withdrawal from the EU created barriers to trade that did not exist prior to 1 January 2021. Ireland's trading relationship with the UK has changed fundamentally. Trade with the UK has become more difficult due to increased bureaucracy, as Irish businesses have to complete customs documents to import from and export to the UK. It has also led to delays because Irish exports and imports with the UK are now physically inspected by government officials before being allowed into the country.

2. Globalisation

A big trend in international trade is the increasing number of **global companies**. These are businesses that operate throughout the entire world. Examples include Coca-Cola, Toyota, McDonald's and Microsoft. Global companies treat the whole world as one big market. They sell the same product all over the world. They make their products in various locations in the world.

Globalisation provides an opportunity for Irish businesses. If these global companies set up in Ireland, they may buy materials from Irish businesses, thus increasing sales and profits. However, it is also a threat to Irish businesses because competition from global companies can wipe them out.

3. Improved Information and Communications Technology

Many businesses are using the internet for international trade. They can advertise their products all over the world on their websites without having to set up shops all over the world. Customers everywhere can see and buy their products from their websites. This means that even the smallest Irish business can now export its products and thereby increase its sales and profits.

4. Increasing Number of Trading Blocs

Many countries in the world are **cooperating** with each other by forming trading blocs together. A trading bloc is made up of countries that make a formal agreement to freely buy from and sell to each another without any barriers to trade (e.g. tariffs, quotas, embargoes and subsidies).

The United States-Mexico-Canada Agreement (USMCA) has created a trading bloc made up of the US, Mexico and Canada.

The European Union (EU) is a trading bloc. The EU comprises 27 countries in Europe, including Ireland. There is totally free trade between all the members of the EU. The EU allows Irish businesses to sell their products in all 27 states without any restrictions. This gives Irish businesses an opportunity to increase their sales and profits by selling to a market of around 450 million people. However, it is also a threat to Irish businesses because of the competition from EU businesses that can sell here without restrictions.

5. New Markets

Other countries are now emerging as economic superpowers to rival the US, Japan and the EU. In 2011, China overtook Japan to become the second largest economy in the world. The economies of India and Russia are also rapidly growing. The people of these countries (China, India and Russia) account for around 40% of the world's population, and are becoming increasingly wealthy consumers and will prove to be lucrative customers for Irish exporters.

Furthermore, **deregulation** is gradually opening up more and more countries to international trade. Deregulation is the process of removing all the government rules and regulations that prevent free trade between countries.

The European Union (EU) deregulated the airline industry in 1997. It removed monopolies and allowed any qualified airline in the EU to run services in any of the other EU counties. This provided EU consumers with greater choice and better value. This deregulation helped Ryanair to become one of the most successful airlines in Europe.

WTO OMC

The **World Trade Organisation (WTO)** is a body consisting of over 150 countries, including Ireland. Its role is to hold negotiations between countries and reach agreements to remove barriers to international trade. These agreements form the legal ground rules for international trade. The WTO is also a place where countries can go to sort out trade problems they have with one another.

The trade agreements arising out of deregulation present Irish businesses with the opportunity to increase their sales and profits by exporting their products more freely all over the world. However, they are also a threat to Irish businesses because of competition from other businesses that can sell here with fewer restrictions.

6. Competition from Low-wage Economies

Irish businesses face increasing competition from low-wage economies. Workers in these countries get paid less than Irish workers and therefore businesses in these countries can sell their products more cheaply than Irish businesses can.

It is virtually impossible for Irish businesses to compete when it comes to products that require very few skills to make. The onus is therefore on Irish exporters to develop high-tech, knowledge-based products for export.

Ireland's Opportunities in Developed and Developing Markets

Irish businesses engage in international trade because it has many benefits for them.

1. Increased Sales

The population of Ireland is approximately five million people, which makes it a small market for Irish businesses. But by engaging in international trade, Irish businesses can sell their products to billions of customers all over the world.

Ireland's membership of the European Union allows Irish businesses to sell their products and services anywhere in the EU without any barriers to trade. Furthermore, deregulation by the World Trade Organisation, of which Ireland is a member, has removed many worldwide barriers to trade and allows for freer international commerce.

Both of these things provide Irish businesses with the opportunity to increase their sales and profits by exporting their products more easily all over the world.

2. Lower Unit Costs

Irish exporters have to make lots of products to satisfy international demand. This gives them economies of scale. The more products they make, the cheaper it costs to make each one. Thus, international trade helps Irish businesses to lower their costs and become more competitive.

3. Overcome Trade Barriers

Irish businesses can set up branches in other countries as a way to overcome barriers to trade. For example, if an Irish business sets up a manufacturing plant in Mexico, all products made there could be freely sold not just in Mexico but also in the US and Canada, as all three countries are USMCA members.

4. Diversification

International trade gives Irish businesses the opportunity to spread their risk (diversify). By selling in other countries, an Irish business does not rely solely on the Irish market. If the Irish economy goes through a bad patch, the business's sales in other countries will keep it in profit.

5. Earn Foreign Currency

When Irish businesses export to foreign countries, they receive foreign currency. They can use this money to pay for goods and services that they need to import. They can use these imports to make better products. For example, an Irish yoghurt manufacturer can export yoghurt to the US and use the dollars received to pay for fruit from Florida, which can be used to improve the variety of flavours the firm offers.

Ireland's Challenges in Developed and Developing Markets

Unfortunately, Irish businesses face a number of particular problems when it comes to selling to other countries.

1. Foreign Languages

Although English is the international language of business, many foreign customers obviously prefer to deal in their own language. This poses a number of communication problems for Irish exporters. They have to make their websites available in many languages. The name of the product may have to be changed. Contracts and other documents have to be translated. This costs time and money.

2. Distribution Problems

Ireland is an island. It is one of only three EU countries without a land link to other EU countries (Cyprus and Malta are the other two). This makes transporting goods more difficult and more expensive for Irish businesses. Goods can only be exported from Ireland by ship or plane. The problem with this is that goods can only be transported according to shipping and airline companies' timetables and the weather. Almost every other business in the EU can simply load up its lorries at the factory and send them to their destination anywhere in the EU at any time, day or night.

3. Exchange-rate Changes

Ireland's currency presents a problem for Irish businesses engaging in international trade. If the euro increases in value, the price of Irish products in non-eurozone countries increases. Therefore, foreigners buy fewer Irish products and our exports fall. This leads to lower sales and profits for Irish exporters.

If the euro decreases in value, the price of foreign (non-eurozone) materials imported into Ireland increases. This increases costs for Irish businesses that have to import materials from non-eurozone countries.

4. Competition from Low-wage Economies

Rates of pay in Ireland are considered to be quite high. To cover this expense, Irish manufacturers must charge a relatively high price for their products. Many other countries have much lower wages and therefore their products and services are always cheaper than Ireland's. It is almost impossible for Irish manufacturers to compete against these low-wage economies when it comes to simple, low-tech products. The challenge for Irish businesses is to develop advanced, high-tech, knowledge-based products that these low-wage economies do not have the skills to make.

5. Payment Problems

Irish firms may have difficulty getting paid for the goods they export. If a foreign customer does not pay, there may be little that the Irish business can do to recoup its money. Different countries have different legal systems, and the rules for recovering money from a customer may be harder to enforce abroad than here in Ireland.

Role of ICT in International Trade

Information and Communications Technology (ICT) makes it easy and cheap for businesses to engage in international trade. Businesses can communicate with customers, suppliers and subsidiaries around the world quickly and cheaply. ICT has many benefits for international trade.

1. Increased Sales

The internet enables businesses to engage in **e-commerce**. A business can showcase its products on its website, and customers from any part of the world can order these products by clicking on an item and sending their credit card details over the internet to make payment.

Even small businesses that cannot afford to operate e-commerce websites can use e-commerce to sell their products around the world. For a small fee, business-to-consumer sales websites such as eBay enable small businesses to sell their products in online auctions to buyers throughout the world.

In this way, Irish businesses can sell their products globally without having to set up shops all over the world.

2. Faster and Cheaper Communications

Email enables you to send a typed message (and other information, such as pictures, sounds or movies) directly from your device to another via the internet.

A business can send as many emails as it wants to its customers, suppliers and employees all around the world, usually for a flat fee. This reduces the cost of communication in international trade. For this reason, Aer Lingus regularly emails all its customers around the world with details of its special offers.

Email is a quick form of communication. Messages are sent and received immediately. This enables a business to respond immediately to customers' queries from around the world.

3. Decision-making

The World Wide Web is a vast collection of information on millions of topics accessed via the internet. It helps managers to make good decisions. If a manager needs information about a particular issue in international trade, he can download the information he needs from the internet in seconds. It allows managers to get information about foreign countries, foreign markets, foreign opportunities and so on. This helps the business to make better-informed decisions.

4. Reduced Costs

Videoconferencing is a virtual meeting held between people in different locations. Live pictures and sound are sent via the internet to screens in all the other locations so that all participants can see and hear each other as if they were in the same room.

Videoconferencing makes international trade easier. For example, the chief executive officer of an international business does not have to travel to each overseas branch for

meetings about sales figures in that country. She can meet with managers and staff worldwide through videoconferencing. There is no need for foreign travel or hotel accommodation. Thus, videoconferencing reduces and can even eliminate the need to spend time and money travelling to a business's international branches.

5. Advertising

The internet allows a business to develop a global brand. The use of social networking sites such as Facebook and Twitter allows a business to reach a global audience and form a real connection with consumers all around the world. The business can use its own website and other global websites to advertise in order to create global awareness of and interest in its products.

Government Help for Irish Exporters

The Irish government has established several organisations and the Department of Foreign Affairs to help Irish businesses export.

Enterprise Ireland

Enterprise Ireland helps Irish firms export their products in the following ways:

- The Enterprise Ireland Market Research Centre offers Irish exporters access to the most up-to-date information on a vast range of markets, companies and countries. This information is needed to explore opportunities and to compete in international markets.
- Its international offices help Irish businesses to find distribution partners and identify potential customers. It introduces them to buyers and helps them to set up in overseas markets.
- It provides Irish exporters with funding to help them grow their international sales.
- It organises trade missions and trade fairs that give Irish exporters the opportunity to connect with international customers, thereby increasing sales in international markets.
- It provides sales training courses to help Irish exporters develop a sales strategy and improve their international selling skills.

Department of Foreign Affairs

The Department of Foreign Affairs helps Irish exporters by:

- Promoting Ireland abroad to maintain and increase Irish exports.
- Lobbying foreign governments and companies to trade with Ireland.
- Seeking to resolve any problems that Irish businesses may have in foreign markets. For example, when BSE ("mad cow disease") broke out in the UK, many countries banned Irish beef as well as British beef. Ireland's ambassadors and diplomats abroad explained to foreign governments that Ireland was not affected, and they succeeded in reopening these markets to Irish farmers.
- Helping to organise trade missions in which Irish businesses go abroad to make foreign contacts, often accompanied by the president of Ireland on a state visit. For example, in one trade mission to China led by then President Mary McAleese, participating Irish companies reported winning new business contracts worth over €40 million.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "imports" and give **two** examples of Irish imports.
2. Distinguish between visible exports and invisible exports. Illustrate with an example of each.
3. Indicate by means of a tick (✓) the category to which each good or service belongs:

	Category			
	Visible exports	Visible imports	Invisible exports	Invisible imports
A consumer in Ireland buys a bottle of French perfume				
A family from Ireland stays in an Italian hotel				
An American music band tours Ireland				
An Irish company carries out a service on a South African Airways aeroplane				

4. Compute the balance of trade and balance of payments for Ireland from the following figures. State whether each is a deficit or a surplus.

Visible exports	€12bn	Visible imports	€18bn
Invisible exports	€9bn	Invisible imports	€11bn

5. Compute the balance of trade and balance of payments for Ireland from the following figures. State whether each is a deficit or a surplus.

Visible exports	€45bn	Visible imports	€40bn
Invisible exports	€16bn	Invisible imports	€15bn

6. List **two** reasons why Irish businesses import and **two** reasons why they export.
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. EU
2. Tariff
3. Quota
4. Embargo
5. Subsidy
6. Free trade

Column 2: Explanations
(a) Money received from the government to help a business pay for fixed assets, such as machinery and computers
(b) Limit placed on the number of imports allowed into a country
(c) Money received from the government to help a business sell its products more cheaply
(d) Countries engage in international trade without any barriers or restrictions
(e) European Union
(f) Tax added to the price of imports
(g) Total ban on all imports

1	2	3	4	5	6

8. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	The EU is a trading bloc.	
B	Deregulation involves countries putting up barriers – such as tariffs and quotas – to prevent free trade.	
C	A global business sells its products in only one country.	
D	WTO stands for Worldwide Trading Ombudsman.	
E	Protectionism involves countries removing barriers – such as tariffs and quotas – to improve free trade.	

9. Outline **two** ways in which the internet helps Irish businesses engaged in international trade.

EXAM SECTION 2 (75%) – LONG QUESTIONS

1. Distinguish between "balance of trade" and "balance of payments". **(20 marks)**
2. Outline **three** benefits of international trade for Ireland. **(15 marks)**
3. Distinguish between "free trade" and "protectionism". **(10 marks)**
4. Identify **three** barriers to free trade that countries can use. **(15 marks)**
5. Explain the term "trading bloc". **(10 marks)**
6. Describe **three** changes taking place in the international economy. **(15 marks)**
7. Explain **three** opportunities facing Irish businesses in international trade. **(15 marks)**
8. Explain **three** challenges facing Irish businesses in international trade. **(15 marks)**
9. Explain how videoconferencing and email help Irish businesses engaged in international trade. **(20 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate the difference between "visible exports" and "invisible exports".
2. Distinguish between "visible imports" and "invisible imports".
   Provide an example of each to illustrate your answer.
3. Compute the balance of trade for Ireland from the following figures.
   State whether each is a deficit or a surplus.

Balance of payments	€10bn surplus
Total exports	€75bn
Visible exports	€55bn
Invisible imports	€25bn

4. Compute the balance of payments for Ireland from the following figures.
   State whether each is a deficit or a surplus.

Invisible imports	€6bn
Total exports	€100bn
Balance of trade	€22bn deficit
Visible exports	€75bn

5. Differentiate between "balance-of-trade surplus" and "balance-of-trade deficit".
6. Illustrate your understanding of the term "trading bloc".
7. A tariff is one barrier to trade that governments can use to protect indigenous firms.
   List **three** other barriers to international trade and explain any one of them.
8. Explain the term "globalisation". Illustrate its impact on the development of the Irish economy.
9. Complete this sentence: Deregulation requires…
10. What do the letters WTO stand for? Explain the role of the WTO in business.
11. Outline **two** impacts of a fluctuating euro on Ireland's international trade with non-eurozone countries.
12. In the context of international trade, outline **two** functions of Enterprise Ireland.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Agricola Foods Ltd

Agricola Foods Ltd is an Irish agribusiness involved in milk processing. It has received a lot of funding from Údarás na Gaeltachta because its factory is situated in the Kerry Gaeltacht. It produces butter, cheese and yoghurt for the home market under the brand name Ciarraí Abú.

Its main customers are supermarkets operating in Ireland. In order to boost profits, the company is currently planning an export drive into the UK and the US. However, the company is concerned that it may lose income due to recent fluctuations in the value of the euro against the UK pound and the US dollar.

Agricola has recently faced increasing competition from cheaper foreign firms – not only from other EU food manufacturers but also from firms in Asia. The company was concerned about how a trade dispute between the EU and the US (which saw the US place an embargo on all EU foodstuffs) would affect its plans. But this dispute was resolved last week.

Discuss the opportunities and challenges provided by international trade for Agricola Foods Ltd. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. "Ireland is a small, open economy." Explain what this means and discuss the reasons why Ireland has no choice but to be an open economy. **(30 marks)**
2. Analyse the importance of international trade for the Irish economy. **(25 marks)**
3. Explain how changes taking place internationally are impacting on Irish businesses. **(20 marks)**
4. Outline the measures governments can take to protect their indigenous businesses from international competition. **(20 marks)**
5. Describe the impact of trading blocs and deregulation on Irish business. **(20 marks)**
6. Explain the aims and objectives of the World Trade Organisation. **(10 marks)**
7. Discuss the challenges provided by international trade for Irish businesses. **(25 marks)**
8. Evaluate the increasing importance of Information and Communications Technology (ICT) in international trade for Irish businesses. Use relevant examples to illustrate your answer. **(20 marks)**

NOTES

UNIT 7

CHAPTER 25

THE EUROPEAN UNION

LEARNING OUTCOMES

In this chapter, we will look at:

- The main institutions of the European Union (EU).
- How the EU makes laws that apply in all EU countries.
- The major EU policies.

The European Union (EU) is a trading bloc of 27 countries, including Ireland. The countries are called “member states”. There is free trade between all **member states**. This is called the **single market**.

The 27 member states are listed here:

Austria	Luxembourg	Slovakia
Belgium	Malta	Slovenia
Bulgaria	Netherlands	Spain
Croatia	Poland	Sweden
Cyprus	Portugal	
Czech Republic	Romania	
Denmark		
Estonia		
Finland		
France		
Germany		
Greece		
Hungary		
Ireland		
Italy		
Latvia		
Lithuania		

EU Institutions

The EU has established a number of institutions to run the organisation.

Among the most important are:

- European Commission
- European Parliament
- Council of the European Union
- European Court of Auditors
- Court of Justice of the European Union
- European Council

European Commission

The European Commission is one of the main institutions of the European Union. It represents and upholds the interests of the EU as a whole. It manages the day-to-day business of implementing EU policies and spending EU funds.

It consists of **Commissioners**. Each Commissioner is in charge of a different area of responsibility within the EU, such as transport, the environment, education, health, agriculture and trade.

The main functions of the Commission are:

1. **To Propose New European Laws**

   The Commission initiates legislation in the EU. This means that it thinks up ideas for new laws to protect the EU and its citizens. To get the technical details of a new law right, it consults with experts through various committees and groups. It also holds public consultations. The Commission then produces a draft of its proposed new law and sends it to the Council of the European Union and the European Parliament for their opinions and approval.

   These laws have a direct influence on Ireland. For example, the Commission thought of the idea for the **minimum wage**. This law had a direct effect on the lives of workers in Ireland. It improved the standard of living for many of them. It also had a direct effect on Irish businesses because it increased their costs.

2. To Enforce EU Laws

The Commission **supervises** the EU to make sure that everyone obeys EU laws. It is known as the "Guardian of the Treaties" of the EU. If it thinks a national government is failing to apply EU law, the Commission first sends an official letter asking it to correct the problem. As a last resort, the Commission refers the issue to the Court of Justice to force that country to obey the law. The Court of Justice can impose penalties, and its decisions are binding on EU countries and institutions.

The Commission is also responsible for making sure that EU policies (see later in this chapter) are carried out properly. For example, the EU Competition Policy states that all businesses must follow the principles of fair competition. To make sure this is adhered to, the Commission keeps an eye on all mergers and takeovers that take place in the EU. It can stop any mergers or takeovers if it thinks they will harm free competition.

> The Commission did not allow Ryanair to take over Aer Lingus, stating that such a takeover would create a dominant company on the routes where Ryanair and Aer Lingus currently compete.

3. To Draft the EU Budget

The European Commission is responsible for preparing and proposing a draft budget for the European Union as a whole. This means that it makes the **initial decisions** as to where EU funds are spent, including how much money each country should get back from the EU.

This is important for Ireland because the Commission decides how much money Ireland will get from the EU. This money is important to Ireland because it is used to build our infrastructure and develop the poorer regions of the country.

4. To Represent the EU Internationally

The Commission speaks on behalf of all EU countries on international matters such as trade policy and humanitarian aid and in international bodies like the World Trade Organisation. In these areas, the European Commission acts as an important **spokesperson** for the European Union on the international stage. It enables the 27 Member States to speak with one voice in international forums.

> The Commission negotiated a major trade agreement between the EU and Japan that came into force in February 2019.

European Parliament

The European Parliament is the institution that is directly elected by the citizens of the EU to represent their interests in discussions with the other EU institutions. Elections to the European Parliament are held every five years.

The number of Members of the European Parliament (MEPs) for each country is roughly in proportion to its population. Under the Lisbon Treaty, no country can have fewer than six or more than 96 MEPs.

The role of the European Parliament is:

1. **To Debate and Approve New EU Laws**

   The European Parliament **considers** laws proposed by the European Commission. The MEPs discuss the advantages and disadvantages of a proposed law, and suggest changes to make it better.

   Under the "ordinary legislative procedure" (also known as "co-decision"), the European Parliament and the Council of the European Parliament jointly have to agree to a proposal for a new law. Thus, the European Parliament gets to vote yes or no to new EU laws. It has joint law-making powers with the Council of the European Union.

2. **To Supervise the EU**

   The European Parliament exercises democratic **supervision** over other European institutions in several ways.

   When a new European Commission is to be appointed, the European Parliament holds interviews with all the prospective Commissioners and President of the European Commission. They cannot be appointed without the European Parliament's approval. Furthermore, the Commission is politically answerable to Parliament, which can pass a "motion of censure" calling for its mass resignation. More generally, the European Parliament exercises control by regularly examining reports sent to it by the Commission, and by asking written and oral questions of the Commissioners.

   The Parliament also keeps an eye on what the Council of the European Union is doing. It calls the President of the Council (the prime minister of whichever country holds the EU presidency) into Parliament to answer questions about its work from the MEPs.

   When national leaders meet for European Council summits, the President of the European Parliament is invited to express Parliament's views and concerns about topical issues and the items on the European Council's agenda.

3. **To Approve the EU Budget**

   The Parliament has the power together with the Council of the European Union to approve of or reject the entire EU budget. It votes yes or no to the EU budget. Thus, it has the power to block the budget drawn up by the Commission, which forces the Commission to come up with another budget. Therefore, it can influence how the EU spends its money.

   Parliament has a committee that monitors how the budget is spent, and every year passes judgement on the Commission's handling of the previous year's budget.

Council of the European Union

The Council of the European Union is the most important decision-making body in the EU. It is where **national ministers from each EU Member State** meet to adopt laws and coordinate policies. It represents the Member States, and its meetings are attended by one minister from each of the EU's national governments.

If the Council is meeting to discuss the environment (Environment Council), each country will send its environment minister to represent it. If the Council is meeting to discuss finance issues, each country will send its finance minister to represent it.

Generally, decisions in the Council of the European Union are made by a qualified majority – i.e. the bigger a country's population, the more votes it has.

The main functions of the Council of the European Union are:

1. **To Negotiate and Adopt New EU Laws**
   Under the "ordinary legislative procedure" (also known as "co-decision"), the Council of the European Union negotiates and adopts laws in the EU together with the European Parliament. It shares the final say on a proposal for a new law. Thus, the Council of the European Union gets to vote yes or no to new EU laws. It has the power to block a proposal from becoming law.

2. **To Approve the EU Budget**
   The Council of the European Union has the power together with the European Parliament to approve of or reject the entire EU budget. It votes yes or no to the EU budget. Thus, it has the power to block the budget drawn up by the European Commission, which forces the Commission to come up with another budget. Therefore, it can influence how the EU spends its money.

3. **To Conclude International Agreements**
   The Council of the European Union gives permission to the European Commission to negotiate on behalf of the EU agreements between the EU and non-EU countries and international organisations. At the end of negotiations, the Council adopts the final decision to conclude the agreement, once the European Parliament has given its consent (required in areas subject to co-decision) and it has been ratified by all EU Member States.

4. **To Cooperate on Foreign and Security Policy**
   The Council of the European Union defines and implements EU foreign and security policy on the basis of guidelines set by the European Council. This also includes the EU's development and humanitarian aid, defence and trade. Together with the High Representative of the Union for Foreign Affairs and Security Policy, the Council of the European Union ensures the unity, consistency and effectiveness of the EU's international policy.

European Court of Auditors

The European Court of Auditors (ECA) is the independent external audit institution of the European Union. It checks that the EU's income has been received correctly, that its expenditure has been incurred in a legal and regular manner, and that financial management has been sound. It performs its tasks independently from the other EU institutions and governments. In doing so, it contributes to improving the management of European Union funds in the interests of its citizens. Its main functions are as follows:

1. **Audits**
   The European Court of Auditors can audit any country or organisation that received EU funding to make sure that the money was not wasted and was spent on its intended purpose. This means that it investigates the paperwork of the organisation and carries out on-the-spot checks to make sure that everything was done correctly. The ECA writes a report on its findings and this draws the attention of the European Commission and EU national governments to any problems.

2. **Annual Report**
   The European Court of Auditors presents the European Parliament and the Council of the European Union with an annual report on the previous financial year (this is called the "annual discharge"). The European Parliament examines the ECA's report thoroughly before deciding whether or not to approve the way in which the European Commission has handled the budget.

3. **Regulations and Position Papers**
   The European Court of Auditors gives its opinion on new or revised EU Regulations with a financial impact at the request of other EU institutions. The ECA can also issue position papers about other issues on its own initiative.

Court of Justice of the European Union

The role of the Court of Justice of the European Union is to make sure that EU laws are applied the same way in all EU countries so that EU law is the same for every EU citizen. The Court is made up of one judge from each EU country. The functions of the Court of Justice of the European Union are as follows:

1. **Advise National Courts**
   The national courts in each EU country are responsible for ensuring that EU law is properly applied in that country. But there is a risk that courts in different countries might interpret EU law in different ways. To prevent this from happening, there is a "preliminary ruling procedure". If a national court is in doubt about the interpretation or validity of an EU law, it can ask the Court of Justice of the European Union for clarification. The same mechanism can be used to determine whether a national law or practice is compatible with EU law.

2. **Ensure EU Law Is Obeyed**
   If one country is failing to fulfil its obligations under EU law, it can be taken to the Court of Justice of the European Union. The Court investigates the allegations and gives its judgment. If the country is found to be at fault, it must put things right at once. If the Court finds that the country has not followed its ruling, it can issue a fine.

3. **Strike Down EU Laws**
   If any EU country or institution believes that a particular EU law is illegal, it may ask the Court of Justice of the European Union to annul it. EU citizens can also ask the Court to cancel a law if it directly affects them in a negative way. If the Court finds that the law in question breaks the rules that govern the EU (called the Treaties), it will declare that law null and void.

European Council

The European Council is a meeting of the heads of government of every EU country at which they set goals and priorities for the EU. The European Council usually meets four times a year in Brussels and its decisions are normally reached by consensus. The meetings are also attended by the President of the European Commission and are chaired by the President of the European Council.

The role of the European Council is to set out the general political direction and priorities of the EU, and to resolve complex or sensitive issues that cannot be sorted out by lower-level officials. However, the European Council has no power to pass laws.

In 2020, the European Council agreed a €1.8 trillion package to fund the next seven years of spending and to inject funds into struggling economies to help them weather the devastation of the Covid-19 pandemic.

The European Council nominates the President of the European Commission. It also appoints the other Commissioners in agreement with the nominated President.

Decision-making in the EU

The EU tries to benefit all the people in each Member State by passing laws to protect and help them. The process of passing a law that suits each country is a complicated one and involves a number of steps.

1. EU decision-making starts with the European Commission. Its job is to initiate legislation in the EU. This means that it thinks up ideas for new laws to protect the EU and its citizens. The Commission produces a written draft of the proposed new law and sends it to the Council of the European Union and the European Parliament for their opinions and approval.
2. The next stage is the "**first reading**" in the European Parliament. The Parliament debates the proposed new law. It discusses the law's advantages and disadvantages, and makes changes to the proposed law to improve it (called **amendments**). It then sends its position to the Council of the European Union.
3. The Council of the European Union then examines the European Parliament's wording of the proposed law. If it approves of it, the law is then adopted in the EU. If it does not approve of it, it will propose its own amendments, then send it back to the Parliament for a **second reading**, with explanations as to why it is taking this position.
4. At the European Parliament's second reading, the Parliament examines the Council of the European Union's position, and if it votes to approve it, it becomes law in the EU. Or the Parliament may reject the Council's position totally, in which case the whole procedure is ended and the proposal does not become law in the EU. Alternatively, the Parliament may propose further amendments to the proposed law and send these to the Council of the European Union for a **second reading** there.
5. At its second reading, the Council of the European Union examines the European Parliament's second-reading position and either approves of all of Parliament's amendments – meaning the Act is adopted and becomes law in the EU – or does not approve all amendments, leading to the convening of the Conciliation Committee.
6. The Conciliation Committee – composed of an equal number of MEPs and Council of the European Union's representatives – tries to find a solution to the impasse. It attempts to draw up a joint text that both can agree on. If unsuccessful, the proposal does not become law in the EU and the procedure is ended. If a joint text is agreed by the committee, it is forwarded to the European Parliament and the Council of the European Union for a **third reading**.
7. This joint text goes before the European Parliament and the Council of the European Union for a third reading. Neither is allowed to change the wording of the joint text. The European Parliament and the Council of the European Union both vote on the text. If both vote yes, it becomes EU law by means of a directive, a regulation or a decision. If either of these institutions votes no, it does not become EU law.

Role of Special-interest Groups in EU Decision-making

Special-interest groups will try to influence the decision-making process to ensure that laws that they want are passed and that laws that do not suit them fail.

A **special-interest group** is an organisation of people who come together to campaign for a common goal. By joining forces they have more power, more money and more talents at their disposal, and are therefore more likely to be listened to by the decision-makers.

The aim of a special-interest group is to pressurise EU decision-makers into making decisions that the special-interest group wants to help it achieve its aims.

> The Irish Business and Employers Confederation (IBEC) will try to get the EU to make decisions that help Irish business people. IBEC has an office in Brussels. It uses this to meet with, write to and phone EU decision-makers so as to make the case for helping Irish business people.

Special-interest groups will do the following to achieve their aims:

1. **Lobby Members of the European Parliament (MEPs)**
   Special-interest groups will phone, write to and meet with MEPs to try to persuade them to vote a certain way. They will send a petition to the European Parliament about an issue they feel strongly about in order to pressurise the MEPs into doing something about it.

   > Before the European Parliament voted to tax airlines to encourage them to reduce their CO_2 emissions, the chief executive officer of Aer Lingus wrote to every MEP asking them to vote against the proposal.

2. **Lobby the European Commission and Individual Commissioners**
   Before it can think up ideas for new laws, the European Commission has to be aware of problems in the EU that need to be solved. This is where special-interest groups come into their own. They meet with the Commissioners to make them aware of issues they are particularly concerned about, and try to **influence** the Commissioners into drafting laws to sort them out.

   Thus, they can "plant" the idea for a new law they want into the heads of the Commissioners, who will then draft a proposal for that law. Therefore, special-interest groups can initiate an idea that will eventually become an EU law. They also get to influence the Commission when it holds its public consultations on proposed new laws.

3. **Set Up an Office in Brussels**
   Many EU decisions are made in Brussels, so special-interest groups set up offices in Brussels so that they can easily and regularly access the decision-makers in the EU. For example, IBEC and the Irish Farmers' Association have offices in Brussels close to the European Commission and the European Parliament. It allows them quick and regular access to the most influential people in EU decision-making, and helps ensure their voice is heard by those who matter.

EU Directives and Regulations

When the Council of the European Union and the European Parliament pass a law, there are two main ways that the law is implemented in EU countries. These are called EU Directives and EU Regulations.

EU Directive

An EU Directive is a law that all EU Member States must obey. It sets out a desired result that each country must achieve by a **given date**. Member states must then take action to change their national laws to implement the directive. However, they have the freedom to change them in whatever way they wish, so long as they achieve the desired result by the deadline.

The Waste Electrical and Electronic Equipment (WEEE) Directive states that Irish retailers must allow customers to leave behind their old WEEE for free at a shop when they buy new equipment there. The shop has to bring it to a proper disposal facility. The shop has to make its customers aware of this law.

The WEEE Directive has increased Irish businesses' costs. They have to pay to print posters and leaflets telling their customers about the directive. They have to arrange storage for customers' old WEEE and they have to transport the WEEE to approved disposal sites.

EU Regulation

An EU Regulation is another EU law that all EU countries must obey. It is the most direct form of EU law. It comes into force **immediately** and must be obeyed by all as soon as it is passed.

An EU Regulation is binding in its entirety. This means that a Member State has no power to apply only those parts that it approves of. An EU Regulation is directly applicable. This means that it **takes precedence** over national law and does not require countries to change their laws.

The General Data Protection Regulation (GDPR) makes businesses more accountable for data privacy compliance and offers EU citizens extra rights and more control over their personal data, including the "right to be forgotten".

EU Policies

EU policies are major programmes that are designed to help specific categories of people in the EU. There are EU policies for EU farmers (called the Common Agricultural Policy), the EU fishing industry (called the Common Fisheries Policy), EU workers (called the EU Social Charter), EU consumers (called the Competition Policy) and EU businesses (called the Single European Market and the euro).

Common Agricultural Policy (CAP)

The Common Agricultural Policy was established to give all farmers in the EU a decent standard of living. It achieves this in a number of ways.

1. The CAP provides for a free agricultural market. EU farmers are allowed to sell their produce anywhere in the EU **without any barriers or restrictions**. This gives Irish farmers a much bigger market (around 450 million people) to sell in, and thereby providing the opportunity to increase their sales and profits.
2. The CAP pays financial aid directly to all farmers to guarantee them a decent and stable income. This is called the **Single Payment Scheme**. The EU makes these payments to farmers to top up their income so as to help them survive. In return, farmers must meet standards for farm hygiene, food safety, animal health and welfare, biodiversity and landscape protection.

   These payments are important to Irish farmers as they help ensure that farming in Ireland remains viable and sustainable. They supplement the income made from agriculture to ensure that Irish farmers make a decent living.

3. The CAP also promotes innovation in farming. It spends money on research projects to come up with new ways to improve farming and to reduce environmental damage: for example, by using crop by-products and waste products to produce energy. This is important to Irish farmers as the research can help them make their farms more productive. A cleaner environment also makes Irish farm produce more attractive on world markets, which helps Irish farmers to sell more.
4. To protect EU farmers from competition from other countries, the CAP adds import **duties** to non-EU food imports to make them dearer. This will encourage consumers to buy more EU-produced food.

> If Irish potatoes sell for €3 per kilo and South African potatoes sell here for €2 per kilo, farmers in Ireland will not sell too many. But if the CAP places a €4 tariff on South African potatoes, they will now cost €6 per kilo. Irish potatoes are now cheaper, so farmers in Ireland sell more.

5. The CAP makes provision for payments to farmers in emergency situations. For example, payments can be made to provide relief from one-off emergencies such as natural disasters, outbreaks of animal disease (e.g. foot-and-mouth disease) or major market imbalances that could endanger whole sectors of the rural economy. This is very important to farmers in Ireland as the CAP provides a financial safety net to support them.

Common Fisheries Policy (CFP)

The EU fishing industry is the fourth largest in the world. The Common Fisheries Policy was devised to give those involved in the EU fishing industry a decent standard of living and to conserve fish stocks (i.e. making sure there is enough fish for everyone for years to come).

It tries to achieve this in the following ways:

Decent standard of living	Prevent over-fishing
Prices for fish are fixed at the start of the year. This helps to avoid huge fluctuations in price throughout the year and to guarantee fishermen/women in Ireland a decent income.	Each EU country is given a quota, which sets out the maximum amount of each type of fish it can catch each year.
To improve the quality of fish caught and thus to help EU fishermen/women sell more, the CFP gives grants to EU fishermen/women to buy better boats and modern fishing technology.	The CFP sets limits for the size of the holes in nets to prevent immature fish from being caught.
To increase fishermen/women's sales and profits, the CFP pays for marketing campaigns to encourage consumers to buy more fish.	The CFP helps Member States to patrol their waters and catch those involved in illegal fishing.

EU Social Charter

The EU Social Charter is the EU's social policy. It gives all EU citizens the following rights:

1. EU citizens have **freedom of movement.** This means that they have the right to work in any EU country they want and be treated the same as nationals of that country.

   This can be good for Irish businesses because if they are short of workers, they can hire more from the other EU countries without the need for visas or work permits. However, it can be bad for Irish businesses because Irish people may decide to live and work elsewhere in the EU, leaving Irish businesses short of skilled workers.

2. EU workers have the right to a **fair wage** that will give them and their families a decent standard of living. All EU countries must set a minimum wage.

   The minimum wage increases costs for some Irish businesses. They have to pay a higher wage to workers than they might otherwise pay if there was no such law. Ireland's minimum wage is higher than that paid in many other EU countries. This puts Irish businesses at a cost disadvantage.

3. EU workers can work only a maximum of **48 hours a week**. They also have the right to public holidays with pay and four weeks' paid annual holiday.

   This can be bad for Irish businesses. Those businesses that rely on a lot of overtime (such as security, hospitals and so on) may have to hire more employees to cover busy periods as they are not allowed to ask existing staff to work more than the legal limit.

4. EU workers have the right to be **consulted** by their employer and to take part in decision-making in the business. They must be kept informed regularly by their boss of the financial situation the business is in. They must be consulted in plenty of time about any decisions their employer plans to make that will affect them and their jobs.

   This forces Irish employers to become more democratic. Irish employers can no longer keep secrets from their employees.

Competition Policy

EU Competition Policy is a set of rules intended to ensure free and fair competition between businesses in the EU. Its aim is to ensure that EU consumers get quality products at reasonable prices.

1. Businesses must really compete with each other and are not allowed to form anti-competitive **cartels**. A cartel is an illegal, secret agreement between competitors in which they agree to restrict competition. The Competition Policy states that businesses cannot work together to rip off consumers by agreeing that they will all charge the same high price for their products. Neither are they allowed to carve the market up between them. **Businesses must act independently when making commercial decisions**.

   Thanks to Competition Policy, the way cars are sold and serviced offers consumers more options. Multi-brand car dealerships are now possible, car dealers can operate in more than one EU country, and it is no longer necessary to be an authorised dealer to sell parts and carry out recognised repairs.

   This rule is important to Ireland because it ensures that Irish businesses compete under conditions of fair competition.

2. Businesses in a dominant position in the market (ones that control a large percentage of the market) cannot abuse their power by increasing prices or trying to stop new competitors from entering the market.

   The vast majority of Irish businesses are small and medium-sized enterprises (SMEs), and are protected against being bullied out of the market by bigger businesses.

> The European Commission fined Google €1.49 billion for abusing its dominant position by blocking its rivals' advertisements on its search engine.

3. EU Competition Policy ensures that Ireland's state-owned enterprises cannot enjoy a monopoly position. This means that they cannot be the only business selling a particular product. Irish state-owned companies must allow other firms to enter their markets.

   This gives Irish entrepreneurs new opportunities to set up businesses in areas previously off limits to them. If they offer a better service than the government's business, they will make a profit.

> The old state monopoly Dublin Bus now faces competition from Go Ahead. This leads to greater competition in the sector, which should ensure better service and lower prices for consumers.

4. EU Competition Policy prohibits mergers and takeovers that would reduce free competition. Any proposed merger or takeover cannot go ahead until permission has been granted by the European Commission. Permission is denied if the Commission believes that the merger would result in the new business having too much control over the market.

   This means that Irish entrepreneurs will be prevented from expanding their businesses by merger or takeover if the European Commission believes that the proposed merger or takeover would be bad for competition.

> The European Commission blocked Ryanair's takeover of Aer Lingus. This would have resulted in one airline controlling too much of the Irish airline industry. The Commission felt that this would lead to less choice and probably higher prices for Irish passengers.

Single European Market (SEM)

The Single European Market (SEM) provides for the free movement of goods, labour and capital throughout the EU. There are no barriers to trade between EU countries.

Goods	EU businesses can sell their products anywhere in the EU without any restrictions (no tariffs, quotas or embargoes).
Labour	EU workers can live and work anywhere in the EU.
Capital	EU citizens and businesses can invest their money anywhere in the EU.

Significance of the SEM for Ireland

1. Irish businesses can **sell their products** anywhere in the EU just as easily as they can sell them in Ireland. There are no barriers to trade between the 27 countries of the EU.

   This is a major opportunity for Irish businesses. It gives them access to more customers. They can sell their products freely to a market of around 450 million consumers. This helps Irish firms to increase their sales and profits and to expand their businesses.

2. The governments of each country must invite tenders from across the EU when making major purchases. Therefore, Irish businesses can bid for **government contracts** in other EU countries. National governments are not allowed to show favouritism to their own country's businesses. They must choose the best quote they get from within the EU.

   This gives Irish businesses the opportunity to win lucrative contracts from other EU governments and thereby increase their sales and profits.

3. The SEM has made trade within the EU easier. There are no **customs checks** or **border controls**. This means that Irish goods are not physically inspected by government officials when they enter an EU country.

   This means there are no delays for Irish businesses when they transport their products to EU countries. Fewer delays mean quicker transportation and, hence, lower costs.

4. Ireland's membership of the SEM provides another opportunity for Irish businesses. It is a major tool in attracting multinational companies to Ireland. They come here to get free access to the SEM.

   When they come here, these **multinational companies** may buy their raw materials from Irish businesses. This leads to higher sales and profits for Irish businesses. Furthermore, they bring to Ireland the latest technologies, products and skills. This helps to make our economy more modern and technologically advanced.

5. The SEM allows for the **free movement of capital**. This means that EU citizens can invest their money anywhere in the EU. This makes it easier for Irish entrepreneurs to raise the capital they need to set up, run and expand their businesses. They can sell shares in any EU stock market and borrow from any EU bank.

Challenges of the SEM for Ireland

1. In the same way that Irish firms can sell their products all over the EU, other EU businesses can set up in Ireland and sell their products here.

   Dunnes Stores faces major competition from Lidl and ALDI (both German supermarket companies).

   This increased competition may force some Irish businesses out of business if they cannot cope with the threat from big EU competitors. To survive, they must develop a unique selling point to hold on to existing customers and to attract new ones.

2. The free movement of labour means that EU citizens have the right to travel and work in any EU country. This could have a negative impact on Irish businesses because Irish people may decide to live and work elsewhere in the EU, leaving Irish businesses **short of workers**. Irish businesses may lose highly skilled Irish workers who are attracted to work in other EU states by better pay and prospects.

3. Irish firms can no longer rely on contracts from the Irish government for sales and profits. Under SEM rules, all **government contracts** must be advertised so as to ensure that all EU businesses can apply. The Irish government must give the contract to the best applicant, regardless of which country it comes from. If another EU business submits the best tender, Irish businesses will lose sales and profits.

Economic and Monetary Union (EMU): The Euro

Monetary Union, which is part of the Economic and Monetary Union, involved establishing the **Single Currency** for some countries of the EU and the setting-up of the European Central Bank (ECB). The role of the ECB is to manage the euro currency and the EU's monetary policy.

There are currently 19 members of the "eurozone", as listed here:

Austria	Belgium	Cyprus	Estonia	Finland
France	Germany	Greece	Ireland	Italy
Latvia	Lithuania	Luxembourg	Malta	Netherlands
Portugal	Slovakia	Slovenia	Spain	

Advantages of the EMU (Euro)

1. **The EMU Reduces Businesses' Costs**
   Irish businesses no longer have to pay bank charges to change currency when they are buying from and selling to other eurozone countries, as all trade is carried out without changing money.

2. **The EMU Reduces Businesses' Risk**
   The eurozone has reduced the uncertainty associated with currency fluctuations for Irish businesses. They do not need to worry about losing profits on exports and imports with other eurozone countries as they pay and are paid in euro. Because they know for certain how much they will pay/receive, this helps them to budget and plan for the future with more accuracy and confidence.

3. **Price Transparency**
   Irish businesses can easily compare prices throughout the eurozone as they are all priced in euro. This helps them to save money on stock and other purchases by finding the cheapest suppliers in the eurozone and buying from them.

4. **The EMU Increases Tourism**
   People from eurozone countries are more willing to holiday in Ireland because they do not have to change their money to come here. This increases sales and profits for Irish businesses operating in the tourism sector.

5. **Price Stability**

   Being in the eurozone is a guarantee of price stability. The ECB sets key interest rates at levels designed to keep eurozone inflation below 2% in the medium term. This helps to ensure that many costs for Irish businesses do not increase rapidly.

Disadvantages of the EMU (Euro)

1. **Ireland Has Little Economic Control**

   When Ireland joined the eurozone, it gave up its national currency. As a result, Ireland now has very little control over its economy. It is reliant on the policies of the eurozone. To help the economy, we cannot adjust interest rates as these are set for us by the ECB in Frankfurt. To help exports, we cannot devalue our currency.

   If Ireland's economy falls out of sync with the rest of the eurozone countries, Ireland could suffer. The ECB might decide to help the rest of the eurozone countries by changing interest rates to suit them rather than Ireland.

2. **Irish Businesses May Face Increased Competition**

   Consumers can now compare prices throughout the eurozone directly because products are priced in euro. Consumers in Ireland can save money by buying from the cheapest supplier in the eurozone. They may decide to buy goods online from other eurozone businesses. This will lead to reduced sales and profits for Irish businesses.

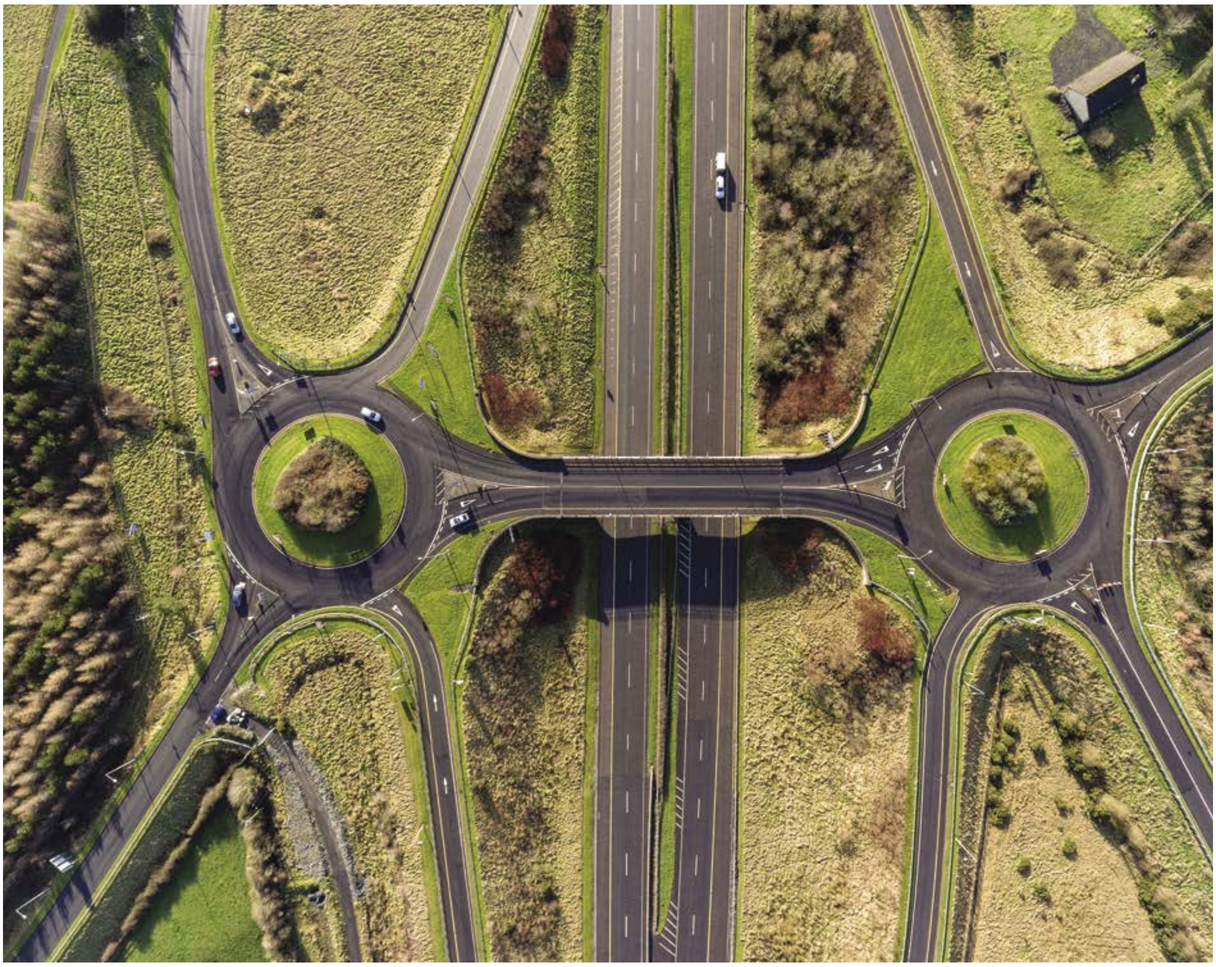
3. **The UK and US Do Not Use the Euro**

   Two of our biggest trading partners, the UK and the US, do not use the euro. Irish businesses still face the costs of changing money and the risks of fluctuating exchange rates when it comes to buying from and selling to the UK and the US.

Importance of EU Membership for Ireland

The European Union is very important for Ireland. It has helped Ireland in a number of ways.

1. Under the Single European Market (SEM), there are no barriers to trade between the 27 countries of the EU. Irish businesses can sell their products freely to a market of around 450 million consumers. This helps them to increase their sales and profits and to expand their businesses.
2. Ireland's membership of the Single Currency (i.e. Monetary Union, which is part of the Economic and Monetary Union) means that Irish businesses no longer have to pay bank charges to change currency when they are buying from and selling in other eurozone countries. This reduces the costs associated with importing and exporting.
3. The EU has given Ireland grants to improve its infrastructure, such as motorways, airports and ports. This has helped Irish businesses to transport their products more quickly and more cheaply than before.



4. Ireland's membership of the SEM is a major tool in attracting multinational companies to Ireland. They come here to get free access to the EU market. They hire workers in Ireland, which leads to lower unemployment in the Irish economy. Furthermore, they bring to Ireland the latest technologies, products and skills. This helps to make our economy more modern and technologically advanced.
5. The EU Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP) have helped Ireland's primary industries of agriculture and fishing by giving those who operate in these sectors a decent standard of living, and by helping to modernise and improve these industries with grants.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms
1. EU
2. European Parliament
3. Council of the European Union
4. European Court of Auditors
5. Court of Justice of the European Union
6. European Commission

Column 2: Explanations
(a) Directly elected by the people of Europe to speak for them in the EU
(b) Consists of Commissioners whose job is to run the EU on a day-to-day basis
(c) EU policy designed to help farmers
(d) Gives advice to the courts of EU countries about EU law
(e) European Union
(f) Most important decision-making body in the EU
(g) Makes sure that the EU budget is spent correctly

1	2	3	4	5	6

2. Outline **two** functions of the European Commission.
3. List **three** interest groups that try to influence EU decision-making.
4. Explain the term "EU Directive" and give one example.
5. What do the following letters stand for? EU MEP CAP
6. Name **three** EU policies.
7. What is the function of the Common Agricultural Policy?
8. Outline **two** advantages of the euro for Irish businesses.
9. Indicate by means of a tick (✓) the EU policy that each sentence describes:

	EU Policy			
	Competition Policy	**Social Charter**	**Common Agricultural Policy**	**Common Fisheries Policy**
Helps farmers achieve a decent standard of living				
Tries to preserve fish stocks				
Gives Single Payments to farmers to supplement their incomes				
Gives EU citizens the right to work anywhere in the EU				

10. Indicate whether each of the following (A, B, C, D and E) is true or false.

	Sentence	True or False
A	The European Commission decides whether a law is passed in the EU.	
B	The Common Fisheries Policy pays grants to fishermen/women to buy better boats and equipment.	
C	Under the EU Social Charter, EU workers must be consulted by their boss about decisions affecting their jobs.	
D	The EU Competition Policy allows businesses to form cartels.	
E	The Irish government can stop any EU business from selling its products here if that might put Irish firms out of business.	

EXAM SECTION 2 – LONG QUESTIONS

1. What is the European Parliament? Outline **three** of its functions. (20 marks)
2. Explain the role of the European Court of Auditors. (10 marks)
3. The EU Competition Policy tries to make sure there is free and fair competition in the EU. Outline **three** ways it achieves this. (15 marks)
4. Describe **three** rights that EU workers enjoy under the EU Social Charter. (15 marks)
5. Distinguish between the Common Agricultural Policy and the Common Fisheries Policy. (20 marks)
6. State **three** benefits of the Single European Market for Irish businesses. (15 marks)
7. Outline **three** challenges of the Single European Market for Irish businesses. (15 marks)
8. Describe **three** disadvantages of the euro for Ireland. (15 marks)
9. Identify **three** reasons why EU membership is important to Ireland. (15 marks)

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Distinguish between the European Court of Auditors and the Court of Justice.
2. Which EU institution do you feel is the most important? Explain your choice.
3. Illustrate your understanding of the term "EU Directive".
4. What do the following letters stand for? SEM EMU CAP ECB EU
5. The EU Competition Policy is an important EU policy. List **three** other EU policies and outline the purpose of any **one** of them.
6. Complete this sentence: The EU Competition Policy requires…
7. Column 1 is a list of business terms. Column 2 is a list of possible explanations for these terms. Match the two lists by placing the letter of the correct explanation under the relevant number below. One explanation has no match.

Column 1: Terms	Column 2: Explanations
1. Ordinary Legislative Procedure	(a) Sets out EU workers' rights
2. Single Payment Scheme	(b) The European Commission proposes laws and the European Parliament debates them
3. Cartel	(c) Business that controls a large percentage of a market
4. Dominant firm	(d) The Council of the European Union and the European Parliament jointly pass laws in the EU
5. Social charter	(e) Income grants paid to farmers every year
	(f) An illegal agreement between competitors to restrict competition

1	2	3	4	5

8. One of the benefits of the EU is that it allows for "the free movement of goods, labour and capital". Briefly outline what this means.
9. Differentiate between Economic Union and Monetary Union in the EU.
10. What do the letters SEM stand for? Explain the importance of the SEM to Irish businesses.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

O'Dea Electrical

Mary O'Dea runs her own electrical shop in Waterford, selling all manner of electrical goods to the general public. The business is situated in an out-of-town retail park that also has many multinational factories. She imports all her stock from Germany. A new motorway from the city to the port – paid for with the help of EU grants – has improved delivery times dramatically.

The minimum wage in Ireland has increased every year for the last number of years. Mary believes that this is the main reason her profits have fallen in recent times. To boost profits, Mary is considering hiring workers from other EU countries, where the minimum wage is lower. In this way she hopes to drive down her wages bill. She has heard from other business people in the city that these workers are willing to work sixty or seventy-hour weeks to make as much money as they can. Mary's current workers are blissfully unaware that she is considering sacking all of them and replacing them with workers from other EU countries.

Explain to Mary how the provisions of the EU Social Charter mean that she cannot proceed with her current plan to reduce wages. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Evaluate the impact of the European Commission on Irish businesses. **(20 marks)**
2. Contrast the role of the European Parliament with that of the Council of the European Union. **(20 marks)**
3. Explain the decision-making process of the EU. **(25 marks)**
4. Explain the role of the European Commission, the European Parliament and the Council of the European Union in EU decision-making. **(30 marks)**
5. Outline the role of special-interest groups in EU decision-making. **(20 marks)**
6. Illustrate the impact of EU Social Policy on Irish businesses. **(20 marks)**
7. Using examples, analyse the role of the EU Competition Policy in creating a suitable climate for business enterprises in Ireland. **(25 marks)**
8. Evaluate the significance of the Single European Market for Irish businesses. **(25 marks)**
9. Discuss the opportunities and threats for Irish businesses arising from the Single Currency (the euro). **(25 marks)**

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UNIT 7

CHAPTER 26 GLOBAL BUSINESS

LEARNING OUTCOMES

In this chapter, we will look at:

- The reasons why so many multinational companies have set up in Ireland.
- The positive and negative effects of these multinational companies on Ireland.
- What globalisation is and how it impacts Ireland.
- How global companies market their products all over the world.

Many companies expand into other countries to increase profits. If they sell their goods in a few countries, they are called multinational companies, and if they sell around the world, they are called global companies. This chapter looks at multinational and global companies and examines how to sell a product all over the world.

Multinational Companies

A multinational company (sometimes known as a transnational company) is a business with a head office in one country and branches or factories in a number of other countries. The head office controls the entire company, whereas the branches around the world perform various operations. Examples of multinational companies include Pfizer, Intel and Dell.

CRH is an Irish building-materials company. It has its headquarters in Ireland and operates in over 20 countries around the world.

Reasons for the Development of Multinational Companies

There are a great number of multinational companies (MNCs). The reasons for this include the following:

1. Companies expand into different countries to **spread their risk**. They do not want to become too dependent on one market. For example, Pfizer (a US pharmaceutical multinational) expanded into a number of European countries. If there is a downturn in the US economy and sales fall in the US, European sales may keep the company profitable.
2. Companies expand into different countries to **increase their sales and profits**. By expanding overseas, they can sell their products to many more customers than if they concentrated solely on their home market.
3. Advances in transport and **communications technology** have made it easier for companies to run overseas branches. Videoconferencing enables managers to run a multinational company

without having to travel. They can hold meetings with branches all over the world from their office using the internet.

4. Expansion into different countries is a way of overcoming **trade barriers**. For example, Pfizer has set up factories in Ireland to manufacture its products. All the pharmaceuticals it makes here can be sold throughout the entire EU without any barriers to trade.

Reasons MNCs Set Up in Ireland

More than a thousand MNCs (including Pfizer, Airbnb, Twitter, LinkedIn and TikTok) have chosen to set up in Ireland. The main reasons they come here include the following:

1. Low Corporation Tax

The rate of corporation tax (tax on a company's profits) in Ireland is low, much lower than the rate in many other countries. Therefore, MNCs that set up in Ireland will pay less tax on their profits, and hence have more profits left over for expansion and dividends.

2. EU Member State

All products made in Ireland can be freely sold throughout the EU without any barriers to trade. MNCs that set up in Ireland gain access to the EU Single Market of around 450 million customers. This helps them to increase their sales and profits. For example, all medicines made by Pfizer Ireland in its factories here can be sold throughout the EU.

3. Grants

The Irish government gives money (grants) to MNCs to help them pay for things that they need to set up in Ireland, such as machines, computers and training. These grants make it cheaper for MNCs to expand. The government pays for part of the costs involved.

4. Education

Ireland has a well-educated workforce. Many Irish employees have a university degree. MNCs are thus attracted to Ireland because there is a plentiful supply of workers with the skills needed to make their high-tech products. For example, Intel, Facebook, PayPal and eBay have all set up in Ireland because the country's universities and institutes of technology produce excellent computer graduates.

5. English Language

Ireland is the only English-speaking country in the EU. English is the international language of business. American MNCs set up in Ireland because we share a common language and therefore there is no language barrier to communications, which makes it easy for them to do business here.

MNCs that set up in Ireland have a major impact on the economy. These are mostly positive, but there can also be negative impacts.

Advantages of MNCs for Ireland

1. **Jobs**
   MNCs create hundreds of thousands of well-paid, good-quality jobs for people in Ireland. Therefore, MNCs help to reduce unemployment in the economy. The wages earned by their employees in Ireland provide them with a high standard of living and increased spending power in the Irish economy. Approximately 8,000 people work in Google Ireland alone.

2. **New Technology**
   MNCs bring new technologies, new products and new management skills and ideas into Ireland. MNCs train their workers in all these new skills, thus increasing the skill set of the labour force in the Irish economy. This helps to make our economy more modern and technologically advanced. For example, PayPal has brought the latest computer technology into Ireland, thereby helping Ireland develop into an advanced knowledge-based economy.

3. **Competition**
   MNCs bring competition into the Irish market. They may offer better quality and lower prices to compete with indigenous Irish firms. This is good for consumers in Ireland because it gives them more choice, lower prices and better quality. For example, Lidl and ALDI have increased competition in the Irish grocery market, leading to lower prices for all consumers.

4. **Taxes**
   MNCs pay a lot of tax to the Irish government. They pay corporation tax on the profits they make here and collect value added tax on all the products they sell here. They also collect a lot of Pay As You Earn tax and pay the employer's contribution of Pay Related Social Insurance on their Irish employees' wages. Therefore, they generate a huge amount of tax revenue for the government, which it can use to invest in improving the Irish economy.

5. **Buy Irish**
   MNCs operating in Ireland may buy their raw materials and other supplies from Irish companies. Thus, they help many Irish companies to increase their sales and profits. MNCs have a positive spin-off effect on indigenous Irish companies. For example, Tesco, Lidl and ALDI buy a lot of vegetables, milk and meat from farmers here, which helps the primary sector of the Irish economy to flourish.

Disadvantages of MNCs for Ireland

1. **They Sometimes Leave**
   A number of MNCs have taken the grants and low taxes offered by Ireland. They then closed down with very little notice and left Ireland to go to low-wage economies. This leads to higher unemployment in Ireland.

   In 2006, Fruit of the Loom, a US multinational, closed down its factory in Donegal to move to Morocco, where wages are cheaper.

2. **Competition**
   Indigenous Irish companies face a lot of competition from these foreign companies. For example, Dunnes Stores faces major competition from Lidl and ALDI (German). The economies of scale they enjoy mean that MNCs can make and sell their products very cheaply. Their vast

resources mean they can afford to invest in research and development (R&D) so as to develop new and improved products. This level of competition may force some Irish companies out of business if they are not as efficient and inventive as their foreign counterparts.

3. **Repatriation of Profits**

   MNCs often repatriate most of their profits. This means they send most of the profits they make in Ireland back home. So the wealth they make in Ireland does not necessarily stay in Ireland to benefit the Irish economy.

4. **Ireland as a "Tax Haven"**

   Some MNCs set up in Ireland to take advantage of its attractive tax laws. They may do so to avoid paying tax. It is alleged that some do not pay their fair share of taxes to the government. Therefore, they do not benefit Ireland as much as they should. However, in 2021, over 130 countries (including Ireland) signed up to a plan to reform international tax rules to ensure that multinationals pay a fair share of tax wherever they operate. The agreement also states that large multinationals (with annual revenues of €750 million or above) will pay 15% corporation tax on their profit. This is predicted to have a negative impact on Ireland.

5. **Overdependence**

   Ireland's reliance on a small number of major MNCs leaves the Irish economy vulnerable. The big tech and pharma MNCs are responsible for huge amounts of economic activity, productivity growth and tax revenue. One third of all Irish exports come from just five MNCs. Ten MNCs pay half of all the corporation tax collected in Ireland. If they were ever to leave, Ireland would suffer a major decline in economic performance, wage levels and standard of living.

Global Companies

Global companies are firms that operate all over the world. They sell the same (approximately) product worldwide. Examples of global companies include Toyota, McDonald's and Nike. Another example is Coca-Cola, a global company that operates in over 200 countries and which sells almost two billion Cokes a day.

Global companies treat the world as if it were a single country. They focus on the similarities between people around the world, and try to satisfy the common needs and wants of people everywhere.

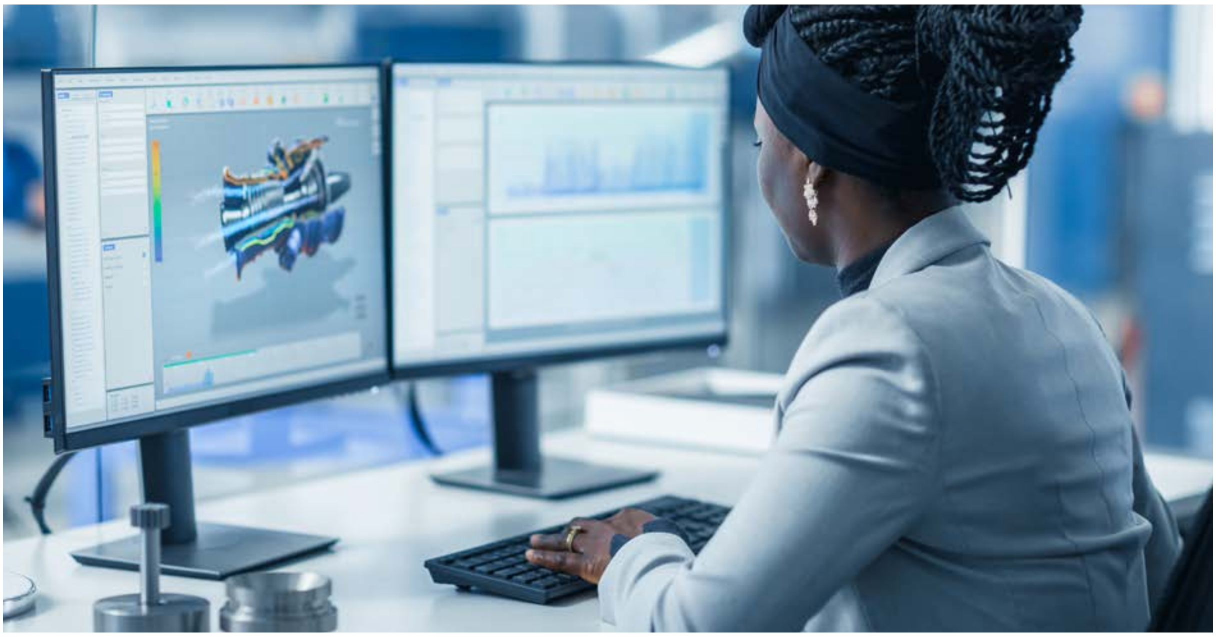
Global companies buy their materials from the cheapest places in the world. They make their products anywhere in the world, particularly in cheap-labour countries. They borrow money from the cheapest banks in the world. They transfer managers from one country to another.

Reasons for the Development of Global Companies

1. **Computer-aided Manufacturing (CAM) and Computer-integrated Manufacturing (CIM)**

   Computer-aided manufacturing is where factory equipment is controlled by computer, which makes it possible to **mass-produce** enough products to satisfy global demand.

   Computer-integrated manufacturing uses computers to control the entire production process from design to distribution. This enables a company to produce high-quality, standardised products in each of its factories no matter where in the world they are located.



2. **Computer-aided Design (CAD)**

   Computer-aided design is computer software used for designing new products in a company. Instead of drawing up designs by hand and manually building prototypes to test them, CAD can design the new product and run a test programme on it. This means that products can be designed and made much more quickly and cheaply. This enables a company to rapidly respond to global market changes by helping it to bring new products to market quickly.

3. **Online Communication**

   Online communication has made it easier to run a global company. Videoconferencing and email enable managers to run a global company without having to travel. They can hold meetings and make important decisions over the internet with branches all over the world. This helps managers to run a company effectively.

4. **Internet**

   The **internet** enables a company to develop a global brand. The use of social-networking sites such as Facebook and Twitter allows a company to reach a global audience and form a real connection with consumers all around the world. The company can use its own website and other websites to advertise so as to create global awareness of, and interest in, its products.

5. **Deregulation**

   Deregulation has made global business possible. Companies can now enter markets previously denied to them thanks to freer world trade. For example, one of the biggest markets in the world, China, did not trade with the rest of the world until relatively recently.

6. **Global Sales**

   Companies become global to **increase sales** all over the world. This leads to higher profits. Also, making enough products for the whole world leads to economies of scale for a company and lower costs.

Advantages of Globalisation for Ireland

1. **Jobs**

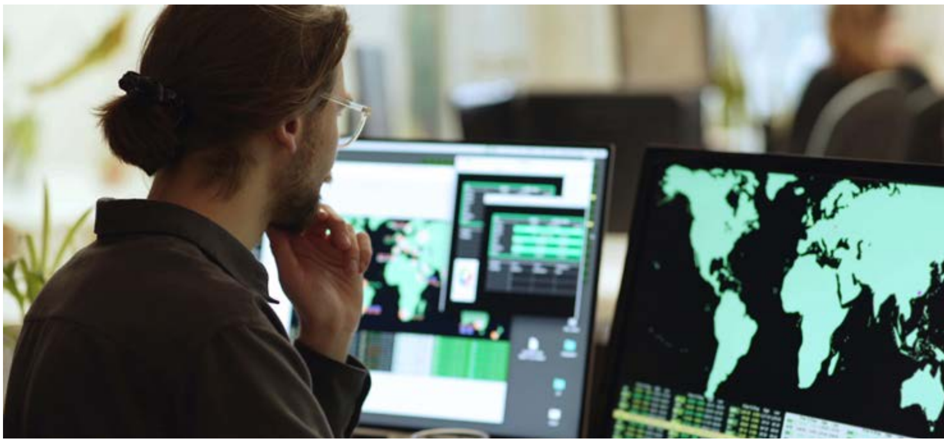
   Global companies employ thousands of people in their Irish branches. Therefore, they help to reduce unemployment in the Irish economy. The wages their employees are paid gives them a high standard of living and increased spending power in the Irish economy. For example, between them Facebook and Google have created thousands of well-paid, good-quality jobs for people in their Irish branches.

2. **New Technology**

   Global companies bring new technologies, new products and new management skills and ideas to Ireland. They train their workers in all these new skills, thus increasing the skill set of the labour force in the Irish economy. This helps to make Ireland's economy more modern and technologically advanced. For example, Google and Facebook have brought the latest computer technology into Ireland, thus helping Ireland develop into an advanced, knowledge-based economy.

3. **Increased Sales**

   The population of Ireland is only five million people, which makes it a small market for Irish companies. But by becoming global, Irish companies can sell their products to billions of customers all over the world. This leads to increased sales and profits. For example, Kerry PLC and Baileys export their products worldwide.



4. **Economies of Scale**

   Making greater numbers of products to export to the world gives Irish companies economies of scale that they would otherwise not benefit from in Ireland's relatively small market. This means that the more they make, the cheaper it becomes to make each product (e.g. the more materials they buy, the bigger the discounts they get). This makes it cheaper for Irish exporters to make their products, which lowers their costs and increases their profits.

5. **Taxes**

   Global companies pay a lot of tax to the Irish government. They pay corporation tax on the profits they make here and collect value added tax on all the products they sell here. They also collect a lot of Pay As You Earn tax and pay the employer's contribution of Pay Related Social Insurance on their Irish employees' wages. Therefore, they generate a huge amount of tax revenue for the government, which it can use to invest in improving the Irish economy.

Disadvantages of Globalisation for Ireland

1. **Threat to Irish Companies**

   Global companies that sell their products here pose a major threat to Irish companies. The economies of scale they enjoy mean they can make and sell their products very cheaply. Their vast resources mean they can afford to invest in research and development (R&D) to develop new and improved products. This level of competition may force some Irish companies out of business if they are not as efficient and inventive as their global counterparts. Irish companies must develop a unique selling point (USP) to hold on to existing customers and to attract new ones.

2. **Repatriation of Profits**
   Global companies often repatriate most of their profits. This means they send most of the profits they make in Ireland back home. So the money they make in Ireland does not necessarily benefit the Irish economy.

3. **Ireland as a "Tax Haven"**
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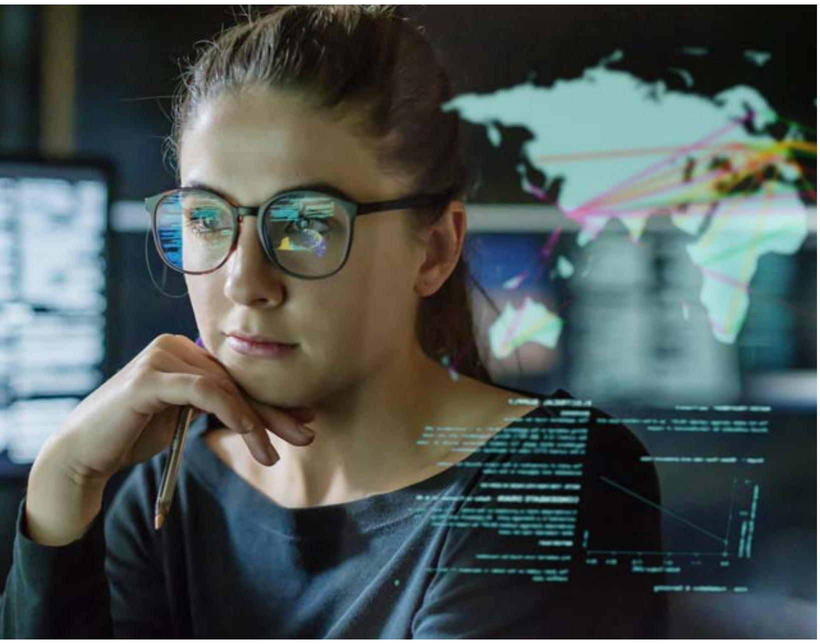
4. **Overdependence**
   Ireland's reliance on a small number of major global companies leaves the Irish economy vulnerable. Global companies operating in Ireland are responsible for huge amounts of economic activity, productivity growth and tax revenue. If they were ever to leave, Ireland would suffer a major decline in economic performance, wage levels and standard of living.

Global Marketing

Global marketing means selling the same product all over the world using a global marketing mix: Product, Price, Promotion and Place (4Ps).



When a global company uses the same marketing mix in each country, this is called a **standardised marketing mix**. The global company concentrates on the similarities across world markets and tries to appeal to the common desires of people everywhere. It takes an undifferentiated approach to the elements of the marketing mix. One example of this is Coca-Cola.

However, sometimes a global company will change elements of the product, price, promotion and place to suit local tastes, cultures and so on. For example, a car manufacturer will produce right-hand-drive cars for Ireland and a number of other countries. This is called an **adapted marketing mix**. This leads to additional production, advertising and packaging costs.

Global Product

This refers to the product sold throughout the world. This is the one element of the global marketing mix that is most likely to stay the same all over the world.

To help with global recognition, most companies will try to use the same product **brand name** throughout the world. In Ireland, Snickers used to be called Marathon. The manufacturer changed the product's brand name so that it would be the same all over the world. This makes it easier for customers to recognise it when they travel, and it helps the company to save money by enabling it to use the same advertisements all over the world.

Similarly, global companies will try to use the same product packaging. For example, Coca-Cola's packaging is red in every country worldwide.

However, global companies must take local needs and cultures into account if they want their product to succeed.

McDonald's restaurants in India do not sell beef (for religious reasons). Instead, they have menu items that cater to local tastes, such as the Maharaja Mac, which is a Big Mac made with chicken patties instead of beef. The chain offers such localised options in many countries around the world.

Mattel was mystified about why sales of its Barbie doll were very low in Japan despite constant advertising. It conducted market research that revealed that Japanese children could not relate to the Barbie doll because it did not look Japanese. Mattel made changes to the doll for the Japanese market and it then became a bestseller in Japan.

Global Price

Global companies will attempt to charge the same price worldwide. However, the price may vary, due to a number of factors:

- There may be extra costs involved in distributing the product all over the world. The further a global company has to transport its product, the higher the price will have to be to cover the extra transportation costs.
- A global company may charge different prices based on what customers in each country can afford. The standard of living varies in different countries. Prices will normally be higher in wealthy countries because customers there can afford to pay more.
- The prices that its competition charges in each country will also determine the maximum price a global company can charge for its product in different countries. A global company cannot charge a price that is wildly out of line with the local competition.
- Governments worldwide will have different laws and taxes that will affect the price in their countries. For example, global brand-name perfumes such as Chanel are cheaper in Spain than in Ireland due to different levels of taxation in each country.

Global Promotion

Global promotion involves communicating with customers worldwide to let them know about a product and to persuade them to buy it. Global companies will try to use the same promotion methods all over the world, as this will help them to reduce their costs. They will use global events such as the Olympic Games and the World Cup as vehicles to promote their products because these events reach a global market. For example, Coca-Cola and Airbnb are official sponsors of the Olympic Games for this very reason.

A global company can advertise online. The internet allows a company's ads to be seen by a global audience, which may help it to increase sales by exporting. It can also use social-media marketing. Facebook, Twitter and online blogs make it easy for a company to speak directly to consumers worldwide and for them to exchange information with the company. It helps the company form a real connection with its customers all over the world.

However, it is not always possible to use the same promotion throughout the world. Promotion may need to be altered from country to country to take into account differences in language, culture and advertising laws. If global companies do not take these differences into account when promoting their product, they may offend locals and lose sales.

Procter and Gamble (a global company that sells beauty and household cleaning products) aired a popular advertisement showing a woman bathing. In the ad, her husband entered the bathroom and placed his hand on her shoulder. When Procter and Gamble ran the ad in Japan (featuring Japanese actors), it was very badly received. Some Japanese women were offended because it is considered bad manners for a husband to intrude on his wife's privacy while she is bathing.

Global Place

Global place is the way that a company distributes its products and services all over the world – i.e. **where** the company sells its products and **how** it gets them to consumers. The various options are called channels of distribution. A global company will have to develop a global channel of distribution to ensure that its products get to customers all over the world. This can be very complicated.

1. A global company can sell its products directly to consumers using its website. A customer can view its products on the website and order them online. The company then delivers the products to the customer's home. Selling direct helps the global company minimise the cost for consumers as the more stages there are in the channel of distribution, the more expensive the product becomes as profit is added at each stage.
2. A global company can form a strategic alliance with a local firm to manufacture and/or distribute its products. Working together benefits them both. The global company increases its sales and the local firm gets an important client that will guarantee profits into the future.

   Coca-Cola enters into agreements with local companies that allows them to bottle and distribute Coke under licence.

   To distribute its product in Israel, Coca-Cola entered into an agreement with the Israeli company Central Bottling Company (CBC) that allows it to bottle and distribute Coke there under licence.

   In Nigeria, the company's main bottling partners include the Nigerian Bottling Company.
3. A global company can set up foreign subsidiaries. It establishes its own factories in different countries around the world. It can then manufacture and distribute its products in each country from its local factory.

   The Japanese car manufacturer Nissan set up a factory in Sunderland in England to make and distribute cars in the UK.
4. A global company can use local agents and distributors to deliver its products.

Importance of Global Marketing

Global marketing is when a company sells the same product in the same manner all over the world. It is important for global companies for the following reasons:

1. Increased Sales

Global marketing helps a company to develop a global brand name that customers all over the world recognise and trust. When they travel abroad, they will buy the name they know (e.g. McDonald's). Thus, global marketing helps a company to **increase its sales**.

2. Lower Costs

By selling the same product throughout the world, a global company can enjoy lower unit costs. It makes so many products to meet global demand that it enjoys massive **economies of scale** – the more products the company makes, the cheaper it becomes to make each one. This allows the global company to sell its products at a very competitive price. For example, Coca-Cola can spread the cost of its investment over the billions of products it sells, and thereby benefit from lower unit costs than most other soft-drink companies.

3. Improved Quality

Selling the same product all over the world requires making it in huge quantities. A global company becomes expert in making its product and, through practice, better than anyone else at making it. Furthermore, a global company can afford to invest in research and development on its product to make it the best in the world. Both of these factors mean that a global company can supply a **world-class product**.

> The global company Apple is renowned for the good quality of its phones.

4. Avoids Alienating Customers

Globalisation may be an increasing trend, but regional identities, customs and tastes are as distinct as ever. It may be easy for brand managers of global brands to view the world as homogenous, where consumer demands are all the same, but the reality is rather different. Successful global companies know that a truly **standardised marketing mix** may not always be appropriate or even possible. They adapt their offerings to local tastes so as to avoid alienating local people and thereby lose sales.

> Sales of Barbie dolls were very low in Japan because they did not look Japanese.
> The company changed the doll to make it look Japanese, and sales rapidly increased.

Ordinary Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Explain the term "multinational company" and give **one** example.
2. List **two** advantages for Ireland of foreign multinational companies setting up here.
3. Outline **two** disadvantages for Ireland of foreign multinational companies setting up here.
4. Define the term "global company".
5. Identify **two** factors that explain why a global company charges a different price for its product in different countries.

EXAM SECTION 2 – LONG QUESTIONS

1. Identify **three** reasons why a business might decide to become a multinational company. **(15 marks)**
2. Describe **three** reasons why Ireland encourages multinational companies to set up here. **(15 marks)**
3. Outline **three** disadvantages of multinational companies for the Irish economy. **(15 marks)**
4. Distinguish between a multinational company and a global company.
   Illustrate your answer with one example of each. **(20 marks)**
5. "Globalisation is a major trend in business."
   Outline **two** reasons why there are now more global companies than ever. **(20 marks)**
6. Explain the term "global marketing". **(10 marks)**
7. Describe **two** advantages of global marketing for a company. **(10 marks)**

NOTES

Higher Level Questions

EXAM SECTION 1 – SHORT ANSWER QUESTIONS [10 marks each]

1. Illustrate your understanding of the term "multinational company".
2. Distinguish between multinational companies and global companies.
3. Define the term "global marketing".
4. What is a global brand?
5. Explain what is meant by the term "adapted global marketing mix". Illustrate your answer with an example.

EXAM SECTION 2 – APPLIED BUSINESS QUESTION

Nevin Burgers

Vincent Nevin founded his own company, a fast-food restaurant, over 30 years ago. The company rapidly grew and has expanded to a number of European countries.

In recent years, however, competition from a number of global companies has harmed Vincent's company and profits have fallen. Customers have revealed that the competitors' food is cheaper and of better quality. This has prompted Vincent to turn Nevin Burgers into a global brand.

His burgers are made from the best-quality Irish beef and Vincent believes that customers throughout the world will like them. He intends to charge the same price in other countries that he charges in Ireland. He also intends to advertise online using the same-social media campaign that has proved so successful in Ireland. The only problem Vincent foresees is how to go global: he cannot afford the huge expense involved in setting up Nevin Burgers restaurants all over the world.

Discuss the marketing challenges Vincent's company may face when trading globally. **(25 marks)**

EXAM SECTION 3 – LONG QUESTIONS

1. Discuss the reasons for the growth in the number of Irish companies, such as CRH PLC, becoming multinational companies. **(20 marks)**
2. Evaluate the impact, both positive and negative, of foreign multinational companies locating in Ireland. **(25 marks)**
3. Outline the factors contributing to the increasing number of global companies. **(20 marks)**
4. Define the term "global marketing". Illustrate its importance to the success of a global enterprise. **(25 marks)**

NOTES

GLOSSARY

Note: Cross-referenced terms are shown in bold.

#

4Ps	The four tools of marketing: Product, Price, Promotion and Place.

A

acceptance	A person agrees to all the terms of a contract.
accrued expenses	Bills for services that are used now and paid for later. The cost of phone services are accrued expenses because you can use the phone now and pay for the service later.
acid test ratio	A calculation that tells a business how much real cash it has, when stock is ignored. The formula is (Current Assets – Closing Stock) ÷ Current Liabilities. The calculation shows the business's **liquidity**.
acquisition	See **takeover**.
adapted marketing mix	A **marketing mix** that may be changed when marketing in different countries and cultures.
advertising	The paid, non-personal communication of information about a product or service through various media.
agenda	Document listing items to be discussed at a meeting.
AGM	Annual General Meeting. All companies must have an AGM every year.
agribusiness	A business that converts farm produce into food.
alliance	See **strategic alliance**.
amalgamation	See **merger**.
AOB	Any other business. Last item to be discussed at a meeting.

APC	Area Partnership Company. An organisation that helps local people set up businesses in their area.
APR	Annual percentage rate. It shows the cost of a loan, including the interest and any other charges.
arbitration	The use of an independent third party to settle **industrial relations** conflicts.
asset stripping	An offensive reason for business expansion. A business takes over a company in order to sell that company's assets at a profit.
autocratic leadership	A style of leading where the manager makes all decisions without consulting the employees.
average clause	A rule applied when you under-insure an item. If you insure an item for only a fraction of what it is worth, the insurance company will pay out only the same fraction of the compensation.

B

backward vertical integration	A defensive reason for business expansion. A business takes over its supplier in order to protect its supplies.
bad debts	Debts that have to be written off because the customers cannot pay them.
Balance of Payments	The difference between the value of all the products and services that Ireland exports and imports.
Balance of Trade	The difference between the value of all the products that Ireland exports and imports.
Balance Sheet	A financial statement showing everything the business owns and all the money it owes.
bank overdraft	A source of finance whereby the bank allows a household or business to pay for things using a debit card up to an agreed limit, even though they do not have enough money in their current account to cover the amount.
bar chart	A chart that uses bars to display information. Bar charts are useful for showing the relative sizes of things.
batch production	A business makes a large amount of identical products in one production run.
benefit-in-kind	A non-cash payment (such as a company car or subsidised meals) made to an employee.
brainstorming	A technique used to generate business ideas. A group of people list all the relevant ideas they can think of. After they have generated enough ideas, they start analysing them.

brand name	A name, symbol, design or logo used by a business to distinguish its products from others.
breakeven price	The minimum price a business can charge to cover the cost of making and selling a product.
breaking bulk	A purchasing strategy. A wholesaler buys large quantities of a product directly from the manufacturer and then sells smaller quantities to the retailers.
business ethics	A set of moral principles that tells business people what is the right and wrong thing to do in a given situation.
business plan	A document that outlines a business's objectives and strategies. It is used to attract investors.

C

CAD	Computer-aided design. Computer software that is used to design new products.
CAI	Consumers' Association of Ireland. An interest group.
CAM	Computer-aided manufacturing. Computer software that controls factory machines.
CAP	Common Agricultural Policy. An EU policy designed to give all EU farmers a good standard of living.
capacity to contract	An essential element of a contract. It means you have the legal ability and authority to make a legally binding contract.
capital	Money used to set up a business.
capital spending	Money the government spends to maintain the country's infrastructure.
capital-intensive industry	An industry that uses more machines than employees. Manufacturing is a capital-intensive industry.
cartel	An illegal secret agreement between businesses to restrict competition.
cash flow forecast	A document that outlines how much money the business (or household) expects to spend and receive in the future.
CAT	Capital Acquisitions Tax. A tax you pay if you receive a gift or inheritance.
caveat emptor	The principle of "buyer beware".
CEO	Chief Executive Officer. The person in overall control of a business.

Certificate of Incorporation	A document sent by the Registrar of Companies to the shareholders of a private limited company. It enables the company to start trading.
Certificate of Trading	A document sent by the Registrar of Companies to the shareholders of a PLC. It enables the company to start trading.
CFP	Common Fisheries Policy. An EU policy designed to give all involved in the EU fishing industry a good standard of living. It also aims to conserve fish stocks.
CGT	Capital Gains Tax. A tax you pay if you sell an asset and make a profit from the sale.
channel of distribution	The means by which a business distributes its products to its customers. For example, a manufacturer might sell to a wholesaler, who then sells to a retailer, who then sells to the customer.
climate change	Changes to earth's climate caused by the use of fossil fuel.
closed shop	The situation where workers have only one choice of union to join.
code of ethics	A document outlining the moral behaviour and expectations of an organisation. It shows managers and employees exactly what is regarded as ethical or unethical behaviour.
collateral	An asset that is used as security on a loan.
collective agreement	An agreed settlement after negotiation.
commercial rates	A tax that businesses pay to their local council every year.
community development	The process where a local community identifies the problems it faces and develops plans to solve these problems.
comparability claim	A claim for a pay rise, based on pay rises given to those who perform similar work.
comparative advertising	A type of advertising. A business advertises how much better its product is than its competitors' products. For example, a supermarket might advertise that its products are better value than its competitors' products.
competitive relationship	A business relationship where two or more stakeholders fight against each other.
conciliation	An independent outsider helps two disputing parties to talk out their differences and reach a mutually acceptable solution.
consent to contract	An essential element of a contract. It means that you give your permission willingly to enter the contract.
consideration	An essential element of a contract. It is the payment one party gives to another as part of the contract.

constructive dismissal	The situation where an employee is forced to resign because of unfair treatment (such as bullying) by her employer.
consumer	A person who buys goods or services.
consumer panel	A group of consumers who are monitored to get their opinions on a product.
Consumer Price Index	A measure of the level of prices in the economy. It is calculated by monitoring the cost of an average family's shopping each month.
contract condition	A fundamental part of a contract. If you break a condition of a contract, the contract is terminated.
contract warranty	A term of a contract that is not fundamental to it. If you break a warranty, the contract is not terminated.
contribution	An insurance principle that applies when you insure an item with a number of insurance companies.
contribution per unit	The price of a product less its variable cost.
controller manager	A manager who tells employees what to do and expects them to do it without question. A controller manager makes decisions without consulting the employees.
controlling	The management activity of ensuring that a business stays on target to achieve its goals.
co-op	See **cooperative**.
cooperative	A business set up by a group of people who want to cooperate with each other.
cooperative relationship	A business relationship where two or more stakeholders work together to help and benefit each other.
corporation tax	A tax that companies pay on their annual profits.
cost of living claim	A claim for a pay rise, based on increases in the cost of living.
Council of the European Union	An EU decision-making body, comprising the government ministers from the member states.
counter-offer	A new contract, which replaces an existing contract. If you change the terms of a contract, you are making a counter-offer.
Court of Justice	An EU court that ensures the EU laws are applied the same way in all member states.
credit control	A management control that aims to eliminate bad debts and encourages customers to settle their debts promptly.

credit rating	A person's or business's reputation for paying back loans. Someone with a poor credit rating will find it difficult to get a loan.
creditor	Someone you owe money to.
current spending	Money the government spends to pay state workers.
customs duty	A tax paid on imports from a non-EU country.
CV	Curriculum vitae. A document summarising a job applicant's qualifications, experiences and interests.

D

Data Protection Acts, 1988–2018/ General Data Protection Regulation	A law that deals with information held about people.
Data Protection Commissioner	A government official who checks how data is used and investigates claims of data misuse.
debenture	A long-term loan that has to be paid in one lump sum in the future. In the meantime, the company pays a fixed rate of interest on the loan every year.
debt capital	Money an investor lends to an entrepreneur for a business. The investor expects the loan to be repaid with interest.
debt/equity ratio	A calculation that shows how a business is financed. The formula is Debt Capital ÷ Equity Capital.
debtor	Someone who owes you money.
deed of partnership	A contract between business partners to set up a business.
deficit	Shortage of money.
delegation	A manager gives some of his work to an employee to do for him.
democratic leadership	A style of leading where the manager involves the employees when making decisions.
deregulation	The removal of government rules and regulations that restrict free trade.
desk research	Using existing research in marketing.
differentiation strategy	A business strategy where a company makes products that are so different, they stand out from the competitors' products.
direct debit	A system where an account holder instructs her bank to regularly pay money from her account into someone else's account. The amount can change each time. Many people pay phone and electricity bills by direct debit.

DIRT	Deposit Interest Retention Tax. A tax paid on the interest earned on savings.
dividend	A share of a business's profits, which is paid to shareholders.

E

e-commerce	The use of internet technology to conduct business.
economic variables	Factors that affect a country's economy. They include inflation, exchange rates, interest rates and tax rates.
economies of scale	A phenomenon whereby the more products a business produces, the less it costs to produce each individual product.
EDI	Electronic Data Interchange. A system that links the computers of two different companies so that they can exchange standard documents without any human intervention.
EGM	Extraordinary General Meeting. This is a company meeting called to discuss a specific urgent issue.
embargo	A ban on all foreign imports or a ban on imports from a specified country.
employee empowerment	Giving employees the power to make decisions for the good of the business.
employee participation	Involving employees in the running of a business.
Employment Equality Act, 1998–2015	Law that bans discrimination at work under nine grounds.
Endowment Policy	A life assurance policy where the insurance company pays out when the insured person reaches a specified age or dies, whichever occurs first.
Enterprise Ireland	A state-owned enterprise that provides advice and grants to indigenous Irish businesses to help them export.
entrepreneur	Someone who sets up a business.
Environmental Impact Statement	An assessment of how a business's plans are likely to affect the environment.
equity capital	Money the owners (and shareholders) have invested in a business.
equity finance	Money an investor gives to an entrepreneur for a business. In return, the investor receives a share in the business and gets an annual dividend.
ethical business practice	Conducting business according to a set of moral principles which ensures that the business does the right thing in all situations.

ethics auditor	An independent outsider who examines every aspect of a business to see whether the business is behaving ethically.
EU Competition Policy	A set of rules that aims to ensure free and fair competition between businesses in the EU. It also bans the formation of a cartel.
EU decision	An EU law that might apply to only one country, organisation or citizen. An EU decision must be implemented immediately.
EU directive	An EU law that must be implemented within a set time by all member states.
EU regulation	An EU law that applies immediately in all member states.
EU Social Charter	The EU's social policy. It aims to improve working and living conditions for EU citizens.
European Commission	The EU body that runs the EU. It proposes new EU laws and enforces them if they become law.
European Court of Auditors	The EU body responsible for ensuring that the EU budget is managed properly.
European Parliament	The EU body that supervises the EU. It debates proposed laws and approves the EU budget.
exchange rate	How much of a foreign currency you can get for €1.
executive summary	A summary of the major findings and conclusions of a report.
exporting	Selling products and services to foreign countries.
extractive industry	See **primary sector**.

F

facilitator manager	A manager who consults the employees and encourages them in their work.
factoring	A short-term source of finance. A business sells it debtors to a bank for cash. The bank charges a fee for the service.
factoring with recourse	A type of factoring. If any of the debtors fail to pay up, the business must reimburse the bank.
factoring without recourse	A type of factoring. If any of the debtors fail to pay up, the business does not have to reimburse the bank.
factors of production	The essential items needed to make a finished product. They are land, labour, capital and enterprise.
feasibility study	A study to assess the practical implementation of an idea.
field research	Carrying out new research in marketing.

financial statements	Documents drawn up by a business to compute its annual profit (Profit and Loss Account) and its assets and liabilities (Balance Sheet).
fixed rate loan	A loan that charges the same rate of interest every year for a specified number of years.
flexitime	An employment arrangement where a business is flexible about what time employees start and finish work.
focus group	See **consumer panel**.
form A1	A form completed by the owners of a private limited company. It outlines the company name, registered offices, directors and secretary.
forward vertical integration	A defensive reason for business expansion. A business takes over the firm that distributes its products in order to guarantee distribution.
fossil fuel	Fuel derived from fossils. It includes petrol, diesel, coal and peat.
franchise	A business expansion strategy. A business allows another entrepreneur to copy its business exactly, in return for a fee.
franchisee	An entrepreneur who opens a business by buying a franchise.
franchiser	An entrepreneur who sells a business idea as a franchise.
free trade	The ability of a country to buy and sell products with other countries without any restrictions.
functional organisation structure	An organisation structure that splits a business up into major jobs (or functions) to be done, such as Marketing, Production and so on.

G

gearing	The ratio of borrowings and investments used to finance a business. Low gearing means that the owners have invested more money than they have borrowed. Neutral gearing means that the owners have invested the same amount as they have borrowed. High gearing means that the owners have borrowed more than they have invested.
generic advertising	A type of advertising. It is used to advertise an entire industry, rather than just a specific brand.
geographic organisational structure	An organisation structure that splits a business up into the major geographic regions that it operates in.
global company	A company that sells its products all over the world.
global marketing	Selling the same product all over the world using a global marketing mix.
globalisation	The trend for businesses to operate throughout the entire world.

green investment fund	An investment fund that invests only in socially responsible businesses.
gross profit	The profit made from the sale of goods, after subtracting the cost of making or buying the goods.
gross profit percentage	A calculation that shows what percentage of sales is gross profit. The formula is (Gross Profit ÷ Sales) × 100.

H

Hierarchy of Needs	A theory developed by Abraham Maslow. It argues that people have a hierarchy of physiological, safety, social, esteem and self-actualisation needs.
hire purchase	A medium-term source of finance. A person or business buys an item, collects it and pays for it in instalments over an agreed period of time.
HRM	Human Resource Management. The process of managing employees in a business.

I

IBEC	Irish Business and Employers Confederation. An interest group.
ICMSA	Irish Creamery Milk Suppliers Association. An interest group.
ICT	Information and Communications Technology. Any technology that enables communication in the business.
ICTU	Irish Congress of Trade Unions. An interest group.
IFA	Irish Farmers' Association. An interest group.
illiquid	Lack of the ready cash needed to pay short-term bills.
import substitution	An indigenous version of an imported product.
importing	Buying products and services from foreign countries.
indemnity	An insurance principle that states that you cannot make a profit from an insurance claim.
indigenous firm	An Irish business set up by Irish people that makes its products in Ireland.
industrial action	Action taken by employees when conflicts with employers cannot be resolved.
industrial democracy	See **employee participation**.
industrial relations	The state of relations between employers and employees.

Industrial Relations Act, 1990	An act that legislates on industrial relations issues, such as industrial action.
inflation	The percentage increase in the general level of prices in Ireland in a year.
informative advertising	A type of advertising. A business gives its customers specific information about the product. A business might advertise that the latest version of its product will be available on 1 March.
INMO	Irish Nurses and Midwives Organisation. An interest group.
inorganic growth	The quick expansion of a business using a merger, a strategic alliance or a takeover.
insurable interest	An insurance principle that states that you can only insure something you own.
intention to contract	An essential element of a contract. It means that the parties to the contract understand that it is a legally binding contract.
interest group	A group of people who campaign for a common goal.
international trade	Commerce between different countries. It involves importing and exporting.
intrapreneur	An employee who presents business ideas to his employer.
invisible exports	Services sold to foreign countries.
invisible imports	Services bought from foreign countries.
invitation to treat	An advertisement, a price tag or a shop display. It is an indication of the price someone is prepared to accept for goods of services. It is not a legally binding contract.
invoice	A bill for goods sold on credit.
ISME	Irish Small and Medium Enterprises. An interest group.
ISO	International Organisation for Standardisation.
ISO 9000	A mark of quality awarded to businesses by the ISO.

J

jargon	Technical language used by a specific group.
job production	A production option. A business makes one product at a time. Hand-made suits use job production.
joint venture	See **strategic alliance**.

just-in-time	A stock control strategy where the business aims to have exactly the right amount of stock (no more and no less) needed at any time.

L

Labour Court	An organisation set up by the government to solve industrial disputes.
labour force	All the people in Ireland who are in work or are available for work.
labour turnover	The rate at which employees leave a business.
labour-intensive industry	An industry that uses more employees than machines. Construction is a labour-intensive industry.
laissez-faire leadership	A style of leading where the manager does not interfere with how employees do their work.
leading	The ability to direct people, give them instructions and make them follow and obey you.
leaning on the trade	Keeping your suppliers waiting for payment of goods you receive. This affects your credit rating.
legality of form	An essential element of some contracts, such as mortgage agreements. It means that the contract must be drawn up in a certain way.
legality of purpose	An essential element of a contract. It means that contracts are legally binding only if they are used for legal purposes. For example, a contract to commit a crime is not legally binding.
limited liability	A legal term. If a private limited company, PLC or a cooperative goes bankrupt, shareholders lose only the capital they invested in the business. They do not have to sell any of their personal assets in order to repay the business's debts.
line graph	A chart that uses lines to show how values change over time.
liquidation	Closing down a business and selling its assets.
liquidity	The ability of a business to pay its short-term bills.
loading	An extra charge added to insurance premiums to cover higher risks.
loss leader	A pricing strategy. A business sells a product below cost in order to attract customers into the store. It is hoped that the customers will then buy other products as well.
low-cost leadership strategy	A business strategy where a company keeps costs low so that it can sell its products cheaply.

M

manpower planning	Ensuring that the business has the right number of employees with the right combination of skills.
margin of safety	The difference between a business's forecast sales and its breakeven point.
market segmentation	Dividing the overall market for a product into different groups of customers. The market for toiletries is divided into men's and women's segments.
marketing concept	The principle that the customer is the most important person in the business.
marketing mix	The four tools used in marketing. See **4Ps**.
marketing strategy	A written plan outlining a business's marketing objectives and how it aims to achieve them.
mass production	A production option. A business makes the same product continuously. Mass production is used to make chocolate bars.
matrix organisation structure	An organisation structure that combines a functional organisation structure with a project team structure.
medium-term loan	A loan from a bank that is paid back in instalments over five years.
mentor	An experienced business person who assists local businesses that are set up by community development.
merchantable quality	Under the Sale of Goods and Supply of Services Act, 1980, goods bought must be of an acceptable standard, taking into account their price and purpose.
merger	A form of inorganic growth of a business. Two separate businesses voluntarily agree to join together to form a new business. Also known as an amalgamation.
minutes	A summary of what was said at a meeting and what decisions were made.
mission statement	A statement of a business's principal objective.
mortgage	A long-term loan used by a household to buy its house.
motivating	The manager energises employees and provides them with incentives so that they cooperate and work harder for the business.
multinational	A company with a head office in one country and branches in a number of other countries.

N

net profit	The profit made after business expenses have been subtracted from the gross profit.
net profit percentage	A calculation that shows what percentage of sales is net profit. The formula is (Net Profit ÷ Sales) × 100.
niche market	A subset of the target market.
niche strategy	A business strategy where a company aims to satisfy a niche market.

O

offer	A person asks another to enter into a contract with him.
off-the-job training	Training employees outside of the normal working situation by sending them on training courses and conferences.
Ombudsman	A person who investigates complaints against public bodies.
on-the-job training	Training employees while they are performing their jobs. They learn by practical experience and observation.
open economy	An economy that trades with most countries.
ordinary share capital	See **equity capital**.
organic growth	The slow, natural growth of a business.
organising	The management activity of arranging a business's resources in the best way to help it achieve its goals.

P

P21	End-of-Year Statement. A form sent by Revenue to an employee, if requested, showing the employee the balance of income tax he owes or is owed for the year.
partnership	A business owned and managed by two to 20 people.
patent	Legal protection for an idea.
PAYE	Pay As You Earn. An income tax that employees pay on their wages.
performance appraisal	An evaluation of how an employee is performing her job.
persuasive advertising	A type of advertising. A business tries to persuade its customers that they must have its product.
pictogram	A chart that uses pictures to convey information.

pie chart	A chart that uses sections of a circle to illustrate the relative sizes of things.
PLC	Public limited company. A business owned by at least seven owners. It can sell its shares to the public.
planning	The management activity of setting goals for the future and devising strategies to use to achieve them.
political strike	An industrial action where employees go on strike to protest against government action.
polluter pays principle	A waste management principle that says that polluters must pay for the cost of disposing the waste they produce.
positive action	A policy to ensure that protected groups achieve full equality in the workplace.
preference shares	A long-term loan, similar to a debenture.
price discrimination strategy	A pricing strategy. A business charges different customers different prices for the same product. For example, a newspaper might have a discount price for students.
price penetration strategy	A pricing strategy. A business charges as low as possible for its products in order to win customers from its competitors.
price skimming strategy	A pricing strategy. A business initially charges a high price for a product to recoup the money spent developing it as quickly as possible.
primary picketing	An industrial action where employees picket outside the employer's business.
primary sector	The section of the economy involved in extracting raw materials.
private limited company	A business set up by between one and 149 shareholders.
privatisation	Selling a state-owned enterprise to a private entrepreneur or business.
PRO	Public Relations Officer. The person responsible for handling a company's relations with the public and the media.
product life cycle	The stages in the sales history of a product. It comprises introduction, growth, maturity, saturation and decline.
product organisational structure	An organisation structure that splits a business up into departments, each of which is responsible for a product the business makes.
product screening	Assessing the ideas for new products and deciding which ones to pursue and which ones to reject.
production run	See **batch production**.

productivity claim	A claim for a pay rise, based on an increased workload or changes to work.
Profit and Loss Account	A financial statement showing how much profit or loss a business has made in a given year.
profitability ratios	Calculations that evaluate the profit made by the business.
protectionism	A means of preventing or limiting foreign imports coming into a country. It can be achieved by an embargo, a quota or a tariff.
prototype	The first working model of a new product.
PRSI	Pay Related Social Insurance. A tax that employees pay on their wages. Paying this tax entitles them to social welfare benefits.
psychological pricing	A pricing strategy. A business uses its price to appeal to customers' emotions. A business might charge a high price because its customers associate high prices with quality.
public service	Those employed by the government to provide a service to the public. The public service includes doctors, nurses and teachers.

Q

quality circle	A group of employees who work to solve quality issues in a business.
quality control	The management activity of ensuring that the business's products meet consumers' expectations.
quorum	The minimum number of people needed to attend a meeting in order for the meeting to take place.
quota	A limit. It can refer to: • The limit placed on the number of imports allowed into a country. • The limit on the amount of food that can be produced. • The limit on the number of fish that can be caught.

R

reality perception	The ability to see things as they really are, and not just as you would prefer them to be.
recruitment	Finding suitable candidates to apply for a job vacancy in the business.
Registrar of Friendly Societies	The organisation that is responsible for the registration of, among others, a cooperative.
relativity claim	A claim for a pay rise, based on a pay rise achieved by a linked group. For example, a TD's salary is linked to civil service salaries.
reminder advertising	A type of advertising. A business uses advertising to remind customers that its brand is still available.

reserves	See **retained earnings**.
retained earnings	Profits that the owners have reinvested in the business.
Revenue	A government body that ensures that all citizens pay the correct tax.
risk management	Taking steps to reduce the risks a business is exposed to. Businesses hire security guards to minimise the risk of theft.
ROI	Return on Investment. The percentage profit made on the money invested. The formula is (Net Profit ÷ Capital Employed) × 100.

S

Sale of Goods and Supply of Services Act, 1980	An act outlining the rights that consumers have when buying goods or services.
sales promotions	Incentives a business offers consumers to encourage them to buy more of its products.
sampling	A quality control strategy where inspectors examine samples in different batches of products. If the sample fails to meet quality standards, the entire batch is rejected.
secondary picketing	An industrial action where employees picket outside another employer's business.
secondary sector	The section of the economy involved in converting raw materials into products. It includes manufacturing and construction.
selection	Choosing the best candidate for a job vacancy from all those who applied.
Self-assessment Income Tax	An income tax paid by a sole trader or a partnership.
semi-state body	See **state-owned enterprise**.
service screening	Assessing the ideas for new services and deciding which ones to pursue and which ones to reject.
share options	Shares that can be bought by employees at a reduced price.
shop steward	A trade union representative who acts as a liaison between a trade union and employees.
SIPTU	Services, Industrial, Professional and Technical Union. An interest group.
Small Claims Court	A court dedicated to judging consumer claims quickly and cheaply without involving solicitors.
social responsibility	A business's duty to treat people (employees, customers, investors and so on) and the environment well.

sole trader	A business owned and managed by one person.
span of control	The number of employees that directly report to a manager.
specific performance	A remedy for breach of contract whereby the person who breaks the contract is forced to carry it out exactly as originally agreed.
spreadsheet	A computer application used for basic accounting calculations.
stakeholders	People who are affected by how a business is run.
standardised marketing mix	A marketing mix that is not changed when marketing in different cultures.
standing order	A system where an account holder instructs her bank to regularly pay money from her account into someone else's account. The amount is the same each time.
state-owned enterprise	A business owned by the Irish government on behalf of the Irish people. Also known as a semi-state body or a state-sponsored body.
state-sponsored body	See **state-owned enterprise**.
statutory meeting	The initial meeting of a private limited company.
stock control	The management activity of ensuring that the business has the right amount of stock at all times.
strategic alliance	A form of inorganic growth of a business. Two separate businesses agree to cooperate on a project, but remain two separate businesses. Also known as a joint venture.
strategic plan	A major long-term plan for a business.
subrogation	An insurance principle that states that once you receive full compensation, that is all you are entitled to.
subsidy	Money given to a business so that it can charge a lower price for its products.
surplus	Money left over.
sustainable development	Development that ensures that present needs are met without compromising the ability of future generations to meet their needs.
SWOT	Strengths, Weaknesses, Opportunities, Threats. An analysis of the challenges and opportunities facing a business.
sympathetic strike	An industrial action where employees go on strike in sympathy with another group.

T

tactical plan	A short-term plan for a particular section of a business.
takeover	A form of inorganic growth of a business. One business buys another business outright, with or without the other business's consent. Also known as an acquisition.
target market	The segment of the market that a business aims its product at.
tariff	A tax imposed on imports coming into a country.
tertiary sector	The section of the economy involved in providing services for business and consumers.
test marketing	Launching a product in a small "test" segment of the market.
Theory X manager	A type of manager who believes that employees do not want to work. Theory X managers use a combination of supervision and threats in order to make sure employees do their jobs.
Theory Y manager	A type of manager who believes that employees enjoy working. Theory Y managers use a combination of encouragement and promotion in order to make sure employees do their jobs.
time management	Getting all the important jobs done in the time available.
TQM	Total Quality Management. A quality control technique that aims to ensure 100% perfection and 100% customer satisfaction.
trade credit	A short-term source of finance for a business. The business receives goods and pays for them later. The payment amount is included in the invoice.
trade union	An interest group that represents employees' interests.
trading bloc	A group of countries that agree to trade freely with each other. The EU is a trading bloc.

U

Unfair Dismissals Act, 1977–2015	An act that protects employees from unfair dismissal.
unlimited liability	A legal term. If a sole trader or partnership goes bankrupt, the owners are liable for paying back all the business's debts. If selling the business does not cover the debts, the owners have to sell some personal assets as well.
USP	Unique selling point. A product feature that favourably distinguishes the product from competitors' products.

utmost good faith	An insurance principle that states that people must be truthful when completing an insurance proposal form. They must provide accurate information and volunteer any relevant information that they are not asked for.

V

variable rate loan	A loan that charges a varying rate of interest every year for a specified number of years.
VAT	Value added tax. A tax added to the price of goods and services.
visible exports	Products sold to foreign countries.
visible imports	Products bought from foreign countries.

W

waste management	How a business deals with the waste it produces. Businesses should aim to reduce, reuse and recycle waste.
whistle-blowing	Reporting unethical behaviour within an organisation. For example, employees are encouraged to report any unethical behaviour they witness.
Whole Life Policy	A life assurance policy where the insurance company pays out only when the insured person dies.
wildcat strike	An industrial action where employees go on strike without giving any notice. This is an illegal strike.
worker director	An employee who is a member of the Board of Directors.
working capital ratio	A calculation that shows how much money a business has for every €1 it owes. The formula is Current Assets / Current Liabilities.
works councils	Groups of employees who are elected by their fellow employees and have a say in the business's plans and strategy.
WRC	The Workplace Relations Commission. A government body that aims to promote better industrial relations.
WTO	World Trade Organisation. It negotiates the trading agreements that form the basis for international trade.

INDEX

C

D

E

F

G

H

I

J

K

L

M

N

O

P

Q

R

U

V

W

X

Y

Z